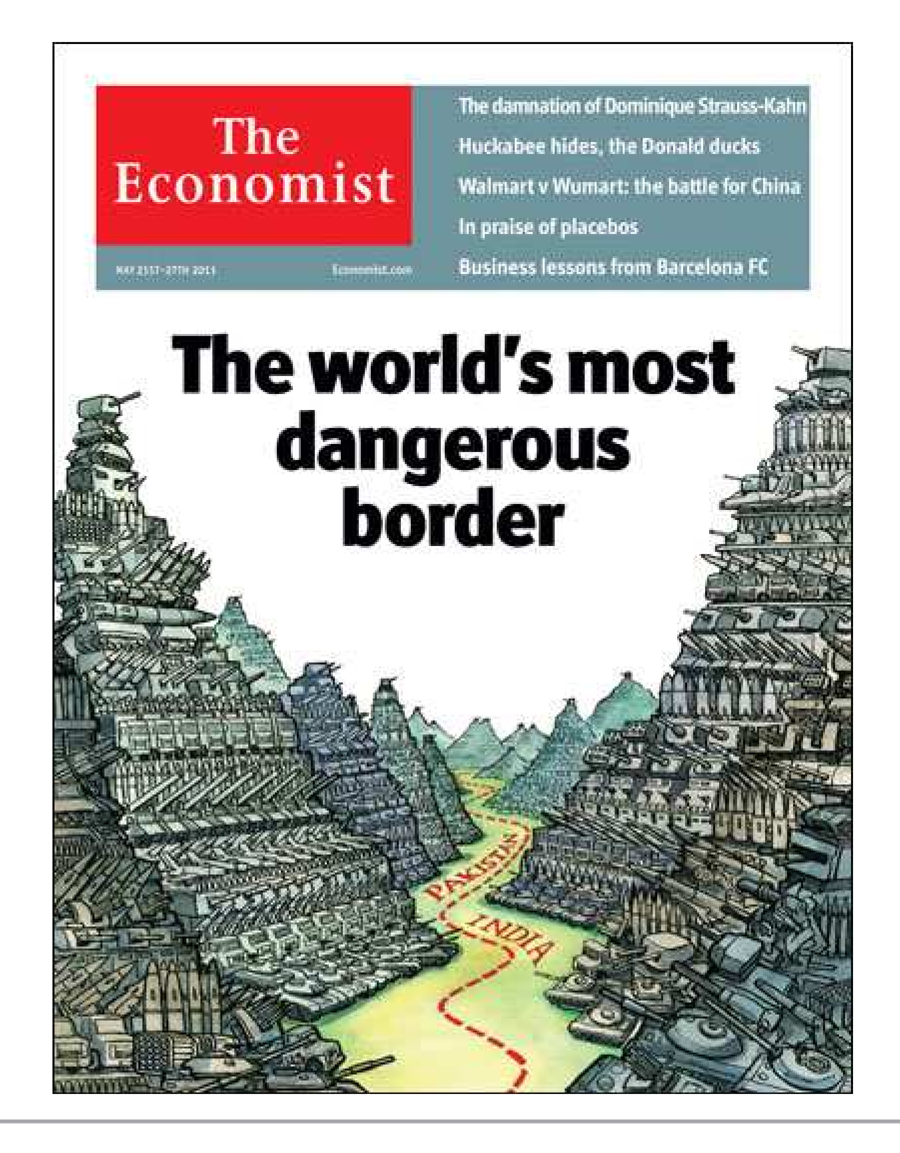
The Economist

May 21th, 2011



Politics this week



At least 14 protesters were shot when **Palestinians** sought to cross **Israel's** borders with Lebanon, Syria, the West Bank and Gaza. The demonstrators were marking the day of the *naqba*, or catastrophe, the term Palestinians use for Israel's birth in 1948. Binyamin Netanyahu, Israel's prime minister, said his country's sovereignty had to be defended. See article

Libya's oil minister, Shokri Ghanem, was reported to have defected, the highest-ranking official to abandon Colonel Muammar Qaddafi since Moussa Koussa, his foreign minister, fled in March. The prosecutor for the International Criminal Court said he was seeking an arrest warrant for the colonel, his son Saif, and his chief of intelligence. See article

Yemen's government and an opposition coalition again came close to a deal to end the crisis that has gripped the country for three months. Under the plan, brokered by the Gulf Co-operation Council, President Ali Abdullah Saleh would stand down within 30 days and a unity government be formed. But he was holding out for last-minute concessions.

Nabil el-Araby, Egypt's 76-year-old foreign minister, was elected secretary-general of the 22-country **Arab League**, replacing Amr Moussa, another former foreign minister of Egypt, who held the post for ten years.

In local elections **South Africa's** ruling African National Congress won most seats but faced its strongest opposition since it came to power in 1994. The share of the vote for the opposition Democratic Alliance, led by a white woman, Helen Zille, was expected to rise from its previous 15%. See article

At a special UN tribunal in Tanzania, the former head of **Rwanda's** army, Augustin Bizimungu, was sentenced to 30 years in prison for genocide and crimes against humanity. He had ordered Hutu militants to kill Tutsis during the genocide of 1994, when some 800,000 Tutsis and moderate Hutus died.

Suspect sentence

Andrei Sannikov, who ran against Alyaksandr Lukashenka for the presidency of **Belarus** in December, was sentenced to five years in prison for what a court said was his role in organising post-election riots. Mr Sannikov called the charges "absurd". Britain and the United States condemned the verdict.



Silvio Berlusconi's ruling People of Freedom party took a drubbing in local elections in some of **Italy's** cities. The biggest blow was the failure of Letizia Moratti, the mayor of Milan, Italy's financial capital and Mr Berlusconi's native city, to secure re-election. See article

Queen Elizabeth II began a four-day visit to **Ireland**, the first visit by a British monarch since Irish independence in 1921. Her trip, which saw the Irish authorities mount their biggest ever security operation, took in a number of historically sensitive sites-and the Guinness Storehouse. See article

Going ballistic

A UN report claims that **North Korea** is violating international sanctions by exporting ballistic-missile technology to Iran via a third country, identified as **China** by diplomats. China blocked publication of the report, which was leaked anyway. See article

The **Chinese** blogosphere was in uproar after officials running Beijing's Forbidden City admitted that they were letting out part of it for high-paying events.

America's Senator John Kerry visited **Pakistan** to try to smooth ruffled feathers following the killing of Osama bin Laden earlier this month. He said relations between the two countries were now "back on track". As if to prove it, Pakistani authorities arrested an al-Qaeda operative in Karachi. **India** was embarrassed when it had to admit that a man on a most-wanted list of terrorist fugitives given to Pakistan was found living near Mumbai.

China's most senior military commander, General Chen Bingde, visited the United States to meet his counterpart, Admiral Mike Mullen, in the first visit by a Chinese defence chief in seven years. But relations are still troubled. China resents American arms sales to Taiwan, while America wants more transparency over China's rapid military build-up.

After four-and-a-half decades in **Singapore's** cabinet, Lee Kuan Yew, the city-state's 87-year-old founding father, announced he was bowing out. He may still sound off from the backbenches. See article

Debt dealings

The **American** government reached the federal-debt ceiling of $14.3 trillion. For the government to issue bonds beyond this point will require approval by Congress, where a request for a raising of the ceiling is bogged down in arguments about spending and taxes. But because of various funds that can be raided, there is no danger of the government defaulting on any of its obligations-at least not for a couple of months.

Strong tax payments, mainly from the rich, gave **California** $6.6 billion in revenues it had not expected. But most Californians were more interested in the scandal surrounding their former governor, Arnold Schwarzenegger, who admitted fathering a son 14 years ago with his family's maid.

The field for the **Republican nomination** narrowed, as both Donald Trump and Mike Huckabee ruled themselves out of contention. Newt Gingrich got himself into a row with the fiscal conservative brigade by pouring cold water on the party's plans for deep cuts to Medicare, the government health insurance scheme for the elderly, while Mitt Romney announced impressive fund-raising figures. Jon Huntsman, who has yet to declare formally, set off to tour New Hampshire. See article

Sweet Micky's new powers



Michel Martelly, a singer-turned-politician, was inaugurated as **Haiti's** new president. It was the first peaceful transfer of power from one democratically elected president to another from a different party in the country's history. See article

The **Cuban** government announced it would allow all small private businesses to hire employees. It had previously restricted that privilege to specific occupations.

Ecuador's National Electoral Council finished counting the votes from a May 7th referendum on constitutional reform. It found that all ten of the amendments proposed by Rafael Correa, the country's president, were approved, giving him more control of the courts and media.

Business this week

Odds of being the next IMF boss
Selected

	Odds*
Christine Lagarde *(France)*	6-4
Kemal Dervis *(Turkey)*	5-2
Montek Singh Ahluwalia *(India)*	5-1
Mark Carney *(Canada)*	10-1
Philipp Hildebrand *(Switzerland)*	12-1
Stanley Fischer *(Israel)*	16-1

Source: William Hill *As of May 19th

Dominique Strauss-Khan stepped down as head of the **IMF,** following his arrest for an alleged sexual assault on a New York chambermaid. Lobbying began over who should succeed him at the helm of the fund. EU finance ministers restated their belief that any new managing director of the IMF should be a European, as tradition dictates. Mr Strauss-Kahn had been expected to quit the fund in June and return to France to compete for the Socialist nomination for the French presidency; polls had suggested that, if nominated, he would beat Nicolas Sarkozy in next year's election. See article

The fund was also busy dealing with **Greece's financial problems**. Greece is unlikely to meet the terms of its bail-out, which requires it to cut its budget deficit to 7.6% of GDP this year. EU ministers must decide whether to approve a "soft restructuring" of its debt, by allowing it to reschedule some repayments. See article

Takeda Pharmaceutical announced a deal to buy the Swiss firm **Nycomed** for euro9.8 billion ($14 billion), the second-biggest foreign acquisition by a Japanese firm on record.

BP failed to seal a share swap and Arctic-exploration deal with **Rosneft** before a deadline on May 16th. The deal, struck in January, was opposed by BP's current Russian joint-venture partners, AAR. Although most of the big issues had been resolved, including a buy-out of AAR by BP and Rosneft, the three firms couldn't agree on all the details. Despite reports that the deal had collapsed, talks are likely to continue and a tie-up between BP and Rosneft is still not out of the question. See article

Nasdaq and **ICE**, two stock exchanges, withdrew an $11-billion hostile bid for **NYSE Euronext**, after American regulators suggested the takeover would throw up antitrust issues. The news leaves the path clear for Germany's Deutsche Borse to pursue its own $10-billion offer, which NYSE accepted in February. See article

London calling

The **London Stock Exchange**, meanwhile, is facing competition in its bid to merge with TMX, the group which operates the Toronto exchange, after Maple, a consortium of Canadian banks, topped LSE's offer. See article

Britain's Office of Fair Trading has suggested that it might refer the country's "big four" auditors, **PwC**, **KPMG**, **Deloitte** and **Ernst & Young**, to the Competition Commission. See article

Yahoo! and **Alibaba**, a Chinese e-commerce firm, tried to patch up their differences after a nasty public spat. Yahoo! had complained that Alibaba, in which it has a 43% stake, had secretly transferred ownership of its online payment portal to another company controlled by Alibaba's chairman, Jack Ma. Yahoo! claimed it had found out about the deal only in March, seven months after the event. Alibaba responded that the matter had been passed by its board, which includes a Yahoo! representative. It added that some compensation had been paid andthere would be further discussions.

Play it again

Sony began to restore its PlayStation Network after hackers breached its security, compromising the personal information of 100m users last month. Howard Stringer, Sony's president, who has been criticised for a lethargic response to the issue, predicted that cybercrime would become an increasing problem, and said he couldn't yet say how much the episode would cost the firm.

Despite having a cash stockpile of $37 billion, **Google** became the latest firm to take advantage of the low cost of borrowing by launching a $3 billion bond offering. The company said it will use the money to pay off short-term loans. Analysts also believe it will go on an expansion drive. It has been a busy week for Google, which also previewed the first laptops to run its Chrome operating system and was on the end of a PR attack from Facebook, which tried to plant nasty stories about it in the press.

Production can begin again at **Saab** after Pang Da, a Chinese distributor, bought 1,300 vehicles and a 24% stake in the carmaker's parent company, Spyker. The deal, worth up to euro110m ($156m), will allow Saab to reopen its plant in Sweden, which has lain idle for six weeks as it has struggled to pay suppliers. The news came after a deal with another Chinese firm, Hawtai, collapsed last week.

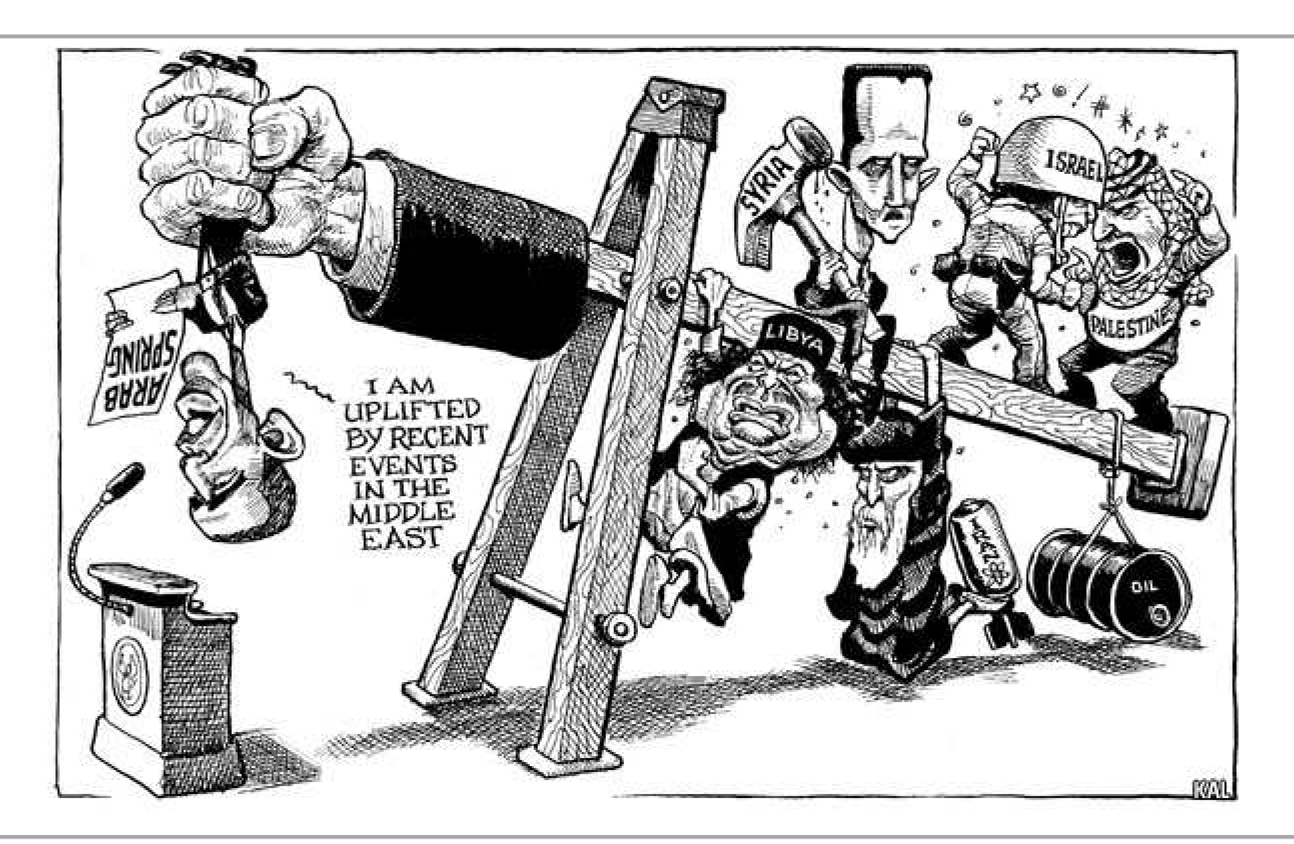
Send out the clown

A resolution at **McDonald's** annual shareholder meeting called on the fast-food chain to axe Ronald McDonald in an effort to stop the firm marketing to children. The company's bosses were unimpressed, though, calling the burger-wielding clown (which it has rebranded a "balanced, active lifestyles ambassador"), a "force for good". See article

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KAL's cartoon



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India and Pakistan

The world's most dangerous border

To reduce the risk of terror, the West must help defuse tension between India and Pakistan



THE late Richard Holbrooke, the Obama administration's envoy to Afghanistan and Pakistan, had many virtues as a diplomat, but tact was not among them. His description of his theatre of operations as "AfPak" infuriated the Pakistanis, who wanted the Americans to regard their country as a sophisticated, powerful ally worthy of attention in itself, not just as a suffix to the feuding tribesmen next door. But that was not the only reason the coinage was unwise. It encouraged the understandable American tendency-shaped by the Soviet occupation of Afghanistan, the war against the Taliban and now the death of Osama bin Laden-to see Pakistan in the context of the fighting on its north-west frontier, and thus to ignore the source of most of the country's problems, including terrorism: the troubled state of relations to its east.

The border between India and Pakistan has seen a bloody partition in 1947 that killed hundreds of thousands; more than 15,000 dead in three wars and 25 years spent fighting over a glacier; 40,000-100,000 dead (depending on whom you believe) in the insurgency in the disputed province of Kashmir. And now both countries are armed with nuclear weapons.

Bloodshed over the border is not the only measure of the damage this poisoned relationship does. In India it exacerbates feuds between Muslims and Hindus. But Pakistan has been worse affected. Fear and hatred of India have distorted its world view and politics (see article). Ignoring this-as the West seems to be doing again-is a terrible mistake, especially because a settlement is not beyond reach.

Death and distortion

Pakistan's obsession with India has damaged it in three ways. First, it has given its generals too much power. Pakistan's army, at 550,000 men, is too small to match India's 1.1m, but too big for Pakistan. The armed forces eat up 16% of the government's budget, whereas education gets 1.2%. Because the armed forces are powerful, the government is weak; and the soldiers' frequent interventions in Pakistani politics exacerbate this imbalance and undermine democracy.

Second, it has shaped Pakistan's dealings in Afghanistan. In the 1990s Pakistan helped create the Taliban partly in order to undermine India's allies in northern Afghanistan. Although it signed up to fight the Taliban after September 11th 2001, Pakistan has continued to protect some of the Taliban in order to counter India's influence in Afghanistan.

Third, it has led Pakistan to foster Islamist terrorism-especially the Lashkar-e-Taiba (LeT), a Punjab-based outfit whose purpose is to attack India. After the LeT attacked the Indian parliament in December 2001 Pakistan banned it, but it has survived-either (as the Pakistanis claim) because it has grown too successful to crush or (as the Indians suspect) because the Pakistani armed forces continue to help it covertly. Either way, India is not the only victim of this murderously stupid policy: terrorism within Pakistan is being fuelled by splinter groups from the LeT-and is going global.

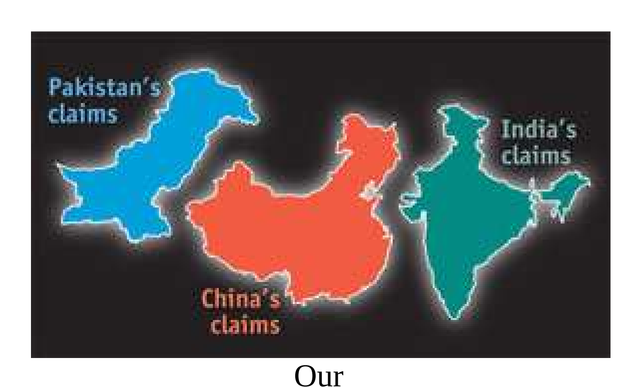
As India grows in wealth and power, so do fear and obsession in Pakistan. Yet India, too, would benefit from a solution. The tension with the minnow to its west distracts it from the rise of the giant to its north, and China will surely dominate its security horizon in the 21st century. America also has much to gain from a saner subcontinent. If Pakistan's world view were not distorted by India, it might be able to see straight on terror.

The soldiers growl

Six and a half decades of bloodshed suggest that the problem may be intractable. The hostility springs from a potent mix of religion, history and territory. Although the fighting has subsided in Kashmir, the issue remains hypersensitive: the Indian government censors publications, including *The Economist*, that print maps showing the current effective border. Politicians in both countries find it hard to be sensible: even those who would like a resolution are susceptible to domestic pressure-the Indians from Hindu nationalists, and the Pakistanis not just from Muslim militants but also from the generals, who regard India as a military, not a political, problem.

Nervous subcontinentals used to reassure themselves that neither side could use a nuclear weapon because the aggressor would suffer from the fallout. That may no longer hold. Since America destabilised things in 2008 by agreeing to give India civil nuclear technology, Pakistan's determination to build up its nuclear arsenal has increased. Last month it announced that it had tested a new mobile missile with a miniaturised nuclear warhead designed to destroy invading tanks with little radiation beyond the battlefield, thus increasing the risk that a border incursion could escalate into something much more dangerous. On May 13th the head of Pakistan's powerful Inter-Services Intelligence told parliament that he had already picked targets in India, and rehearsed attacks. He did not specify nuclear attacks, but did not exclude them. This is a dangerous time: Pakistan's militants are evidently keen to show that Islamist terror will survive bin Laden's death, and-unlike the cold war-there is scope for terrorists either to provoke a nuclear conflict or to explode a dirty nuclear device.

But while the soldiers growl, the politicians have made progress. In 2004-07 quiet talks established the framework for a settlement over Kashmir, under which Pakistan would in effect give up its claim to Indian Kashmir and India would agree to a "soft" border (one allowing a lot of freedom of movement). That deal was scuppered by the attack on Mumbai by the LeT in 2008 that killed 170 people. But both governments have shown they are willing to get back to the table, and talks are now resuming. India's prime minister, Manmohan Singh, met Pakistan's, Yusuf Raza Gilani, at a cricket match in March; and their foreign ministers are due to meet in July.



Our

The ingredients needed for progress are clear. Pakistan has to make more effort to stop a terror group scuppering talks for a second time; India, to help Pakistan give up its claim to Indian-held Kashmir, needs to pull its army out, grant plenty of autonomy and stop shooting schoolboys who lob stones at its soldiers. (Last summer 120 died in this way.) Yet the risks-for instance from another terrorist attack-are immense. After Mumbai, India's politicians showed great restraint. It would be difficult for them to do so again.

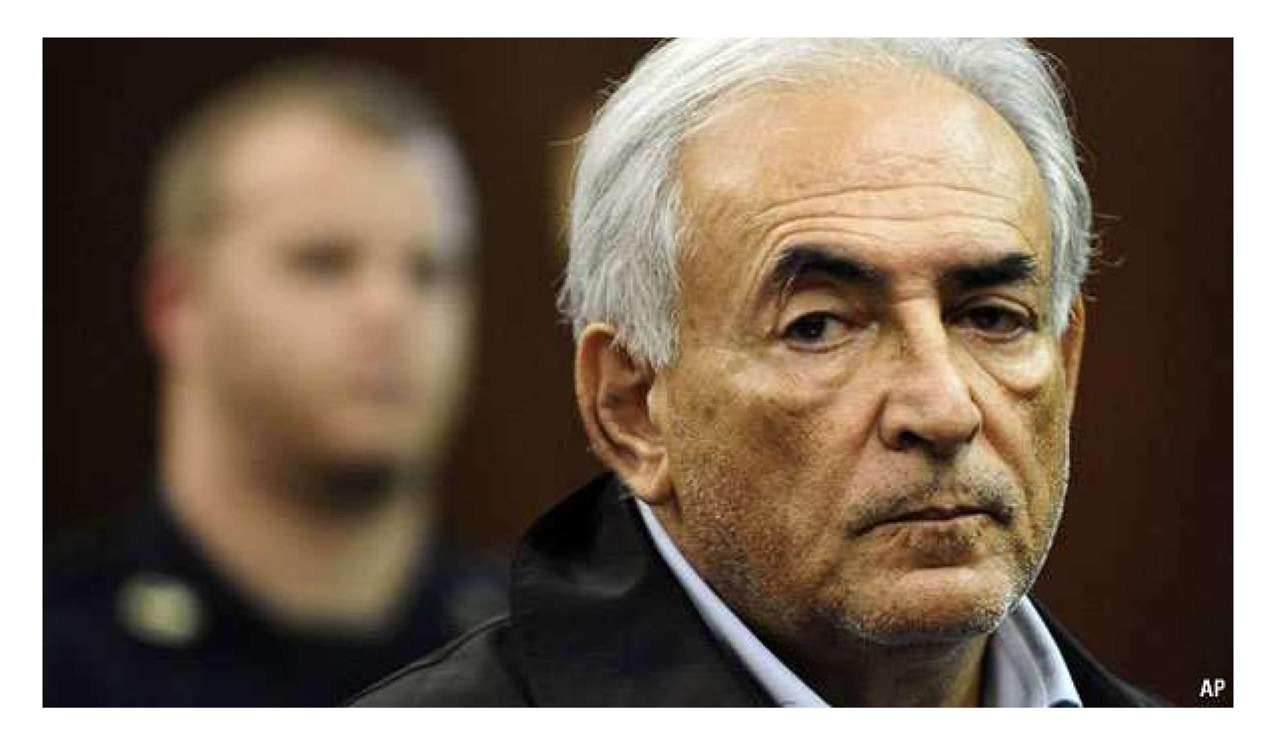
America can help. The nuclear deal gives it extra clout with India, which it should lean on to show restraint in and flexibility on Kashmir. It should also change its approach to Pakistan. America plies Pakistan's soldiers with military aid, and tends to talk to them rather than the politicians. Last year it pressed the government to give General Ashfaq Kayani an extension of his term as chief of army staff; and it informed Pakistan's generals of the death of bin Laden before President Obama called President Zardari. Boosting the soldiers' clout diminishes the chances of a political settlement with India.

By itself, a settlement with India will not make Pakistan a safe place. But it would encourage a series of changes-reining in the generals, building up democratic institutions, spending more on health and education, rejecting Islamist terrorism, rethinking its approach to Afghanistan-which could start to transform the country. Until that happens, Pakistan will remain a disappointment to itself and a danger to the world.

Dominique Strauss-Kahn

Damned

Whatever the man did, do not forsake his ideas: they are more important



ON SATURDAY morning Dominique Strauss-Kahn, head of the IMF, was contemplating five years in the Elysee palace as France's next president. By Monday he was locked up in a cell in Rikers Island jail in New York on suicide-watch, charged with sexual assault, unlawful imprisonment and attempted rape. If he is convicted on the most serious charges, he faces as many as five presidential terms in prison.

So steep has been Mr Strauss-Kahn's fall, and seemingly so self-destructive, that most French people seem to think he is the victim of a plot (see article). Mr Strauss-Kahn has indeed protested that he did not try to force sex on a hotel maid and, plainly, it is for the courts to judge him. Yet this would not be the first time that a dominant man, blinded by the habit of abuse and the arrogance of power, had thrown it all away and ruined the people unfortunate enough to cross his path.

Whether or not the New York prosecutor is right to think Mr Strauss-Kahn guilty, his professional life has now come to an end. Protesting his innocence, he has already resigned from the IMF, which now needs a new head; and France will have to rethink the presidential campaign that is at hand. Both choices will affect millions of lives; and both could go very wrong.

Whatever his personal failings, Mr Strauss-Kahn was an outstanding head of the IMF. Before the financial crisis, the fund risked irrelevance. With him there, it has again played a central part in managing the world economy. Mr Strauss-Kahn combined technical skills with shrewd political instincts. His job is being temporarily filled by his American deputy, John Lipsky, but the shareholders need to decide quickly on a formal replacement. The Europeans, beset by difficulties in the euro zone, are desperate that the job should once again go to one of them. Recently, emerging economies in particular have demanded a more open succession. They are right.

Meanwhile, Mr Strauss-Kahn's arrest has in effect disqualified from the presidential race the politician who looked best placed to win the presidency for the Socialist Party, for the first time since Francois Mitterrand's re-election in 1988. Mr Strauss-Kahn was the candidate with the greatest chance of bringing the Palaeolithic French Socialists into the modern age.

The danger now, as Socialist alternatives line up, is that the party sloughs off its modernising aspirations and reverts to type. Unlike parties of the left in Britain or Germany, France's Socialists have yet to digest the sour reality that wealth needs to be created before it can be distributed. Their draft manifesto includes a jaw-dropping pledge to reverse France's minimum retirement age, which has only just been raised from 60 years to 62. The Socialists' reflex is to tell the French that they need to be "protected" and "sheltered". However, the French cannot for ever defy the laws of economics and protect themselves with costly benefits that only pile up huge public debts for future generations. France's tragedy is that Mr Strauss-Kahn, who understood that, misunderstood so much else.

Why this time the sex matters

Somehow Mr Strauss-Kahn sailed through a lifetime of womanising. At the IMF he had a liaison with a more junior colleague in 2008. It was his only publicly investigated affair and an inquiry, by outside lawyers, concluded that the relationship was consensual. Yet the woman in question said that Mr Strauss-Kahn was "a man with a problem that may make him ill-equipped to lead an institution where women work under his command". That warning now seems prescient.

Many of the other, unpublicised affairs were in France, which faces questions of its own. It can be hard with public figures to trace a clear line between what is in the public interest and what should remain behind the bedroom door. In general France's determination to respect that difference is admirable. A consensual affair between adults is usually private, barring obvious hypocrisy or some genuine public interest (such as national security). By contrast, attempted rape, or sexual violence, is a public crime. That sounds a straightforward line for a civilised country, and civilised press, to draw. Yet, in everyday political life, where affairs between powerful public figures and relatively powerless subordinates are uncomfortably common, and favours and threats exchanged between the sheets, that line is crossed too often. Accusations of sexual violence, which stack one person's word against another, are always hard for the victim to make. The worry is that the balance in France leans against public disclosure to such an extent that few victims of harassment by powerful figures dare speak out.

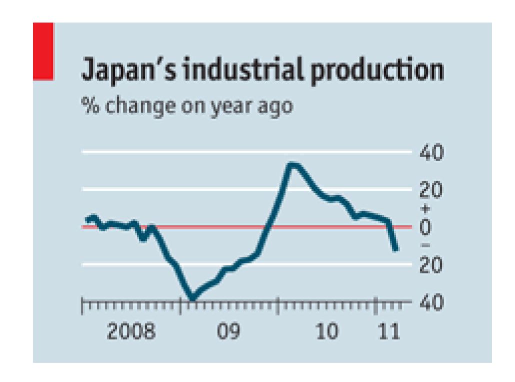
So this is one of those rare cases where a sex trial could change social norms in a good way: indeed, it may already have done so. But none of that should detract from the fact that Mr Strauss Kahn deserves a fair trial-and so do the ideas he stood for. They could change France as well.

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Japan's economy

On a mission

A rare reformist zeal is emerging in post-quake Japan. The government ignores it at the country's peril



THERE is something awe-inspiring about the Japanese on a mission. During Golden Week holidays this month, thousands of volunteers helped to sift through the muddy wreckage left by the March tsunami. Stricken roads, bullet trains and factories have returned to normal with astonishing speed. In people's ardour to rebuild, once-taboo ideas are emerging on how to reform and deregulate not just the damaged areas but the country at large (see article). The government urgently needs to develop a sense of mission, too.

The combined power of a quake, tsunami and full-scale nuclear accident has jolted whatever sense of complacency the Japanese had about the resilience of their country. The ham-fisted efforts of Tokyo Electric Power (TEPCO) to stem the crisis at the Fukushima Dai-ichi nuclear-power plant have exposed the company for what it is: an inept monopoly so big it could co-opt or run rings around its regulators. It should be broken up. Meanwhile, the smashed-up fishing fleets and sea-swamped rice paddies in the north-east have prompted discussion on bringing private investment into these heavily protected areas which no longer provide a future for the young. Many are championing the idea of special economic zones in the north-east, which would free the area from the cat's cradle of rules imposed from Tokyo that hamper free enterprise. All of these are good ideas. But they will wither unless the central government throws its weight squarely behind them.

For much of the crisis, Naoto Kan, the prime minister, has been a sadly withdrawn figure. Yet when he does show leadership, the public responds. His popularity, though low, rose this month after he unexpectedly pressed for the closure of the nuclear-power plant nearest to Tokyo because it sits on a fault line. He has won plaudits for suspending plans to build more nuclear facilities. No doubt he could do more to accelerate an emergency Â¥10 trillion ($123 billion) plan for rebuilding damaged parts of the Tohoku region if he were not faced by a "Bring Down Kan" campaign within the opposition and even his own party. But he must get around such pettiness.

Carpe Diet

To do so, Mr Kan needs to craft a message as substantial as the challenges Tohoku faces. And he needs debate on it to ring out beyond the corridors of power. There are a few encouraging signs. As TEPCO's compensation liabilities mount, Mr Kan is airing the once-unthinkable suggestion that it should be broken up. The government may end up on the hook for many of its liabilities, but a break-up could help spur long-overdue deregulation of the energy sector.

More broadly, Mr Kan should seize the national mood of solidarity with Tohoku to persuade people to accept difficult reforms. Higher taxes will be needed not just to pay for reconstruction in Tohoku but also to help shore up Japan's overstretched social-security system. The pension-eligible age, now nearly 65, may have to be raised sharply, too.

So far, Mr Kan's message has been muddy. He has backtracked on an idea to enter talks to create a free-trade area known as the Trans-Pacific Partnership, even though the parts-suppliers in Tohoku that have been damaged in the disaster would benefit from freer trade. He has yet to spell out deregulatory proposals that would encourage private companies to invest, in Tohoku and elsewhere.

His excuse is politics: with a divided Diet, it is tough to be bold. But that ignores his ability to harness public opinion for the cause. Not for years have good ideas flowed so freely in Japan. But such moods don't last. Miss this moment, Mr Kan, and Japan will rue it for years to come.

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The White House and American business

Don't bully Boeing, Barack

Want to prove you are "pro-business"? Condemn a loony-left complaint against America's biggest exporter



IF YOU book a holiday and the flight is cancelled, you may decide to use a different airline the next time. Airlines know this, which is why Sir Richard Branson, the boss of Virgin Group, was so angry when Boeing failed to deliver the planes he needed to ferry thousands of passengers to sunny climes one Christmas. He blamed a strike by Boeing workers in Washington state. "If union leaders and management can't get their act together to avoid strikes, we're not going to come back here again," he told reporters. "We're already thinking: 'Would we ever risk putting another order with Boeing?'"

No one disputes a traveller's right to switch airlines, or an airline's right to switch suppliers. But woe betide an aircraft-maker that tries to shift production from a strike-plagued American state to a more business-friendly one; at least, if the National Labour Relations Board (NLRB) gets its way. Under President Barack Obama, the federal agency charged with policing interactions between firms and employees has started to interpret old laws in new and troubling ways.

Its case against Boeing goes like this. Since 1995 Boeing has suffered three strikes at its unionised factories near Seattle. The longest stoppage, in 2008, lasted for eight weeks, cost the firm $2 billion and prompted customers such as Sir Richard to use phrases like "absolutely and utterly ghastly". Oddly enough, when deciding where to expand production, Boeing took this into account. In 2009 it announced that it would build a new factory to assemble 787 Dreamliner jumbos in South Carolina. That, the NLRB's general counsel claims, was an illegal act of "retaliation" against strikers in Washington, aimed at intimidating them into not striking in the future. Its proposed remedy is for Boeing to move the work to Washington. What would become of the $1 billion it has already invested in the new factory, and the 1,000 South Carolinians it has hired, is anyone's guess. The case will be heard next month (see article).

Be careful what you wish for

The 1935 National Labour Relations Act has never been construed so broadly. Boeing is not actually reducing the amount of work it does in Washington. Quite the opposite: it increased its workforce there by 2,000. It is not closing the factories where the strikes occurred, nor is it sacking the strikers. It is merely choosing to add capacity in a state where labour relations are more cordial. In Washington, once workers at a company vote to unionise, every employee can be forced to join (and pay dues to) the union. In South Carolina they cannot. It is one of 22 "right to work" states where such compulsion is illegal (and to which millions of jobs have migrated).

Labour unions hate right-to-work laws, and are hoping that the NLRB will undermine them. They should be careful what they wish for. The NLRB's line of reasoning would make it potentially illegal to build a new factory in a right-to-work state if you already operate one in a heavily unionised state-creating a powerful incentive never to do business in a heavily unionised state in the first place. It would be safer to make things only in places like South Carolina, or perhaps south China.

The NLRB is an autonomous body, but its board members are appointed by the president. Under a Democratic president, American businesses expect a more pro-union line, but the agency's recent militancy is shocking, reminiscent of "loony-left" posturing in Britain in the 1970s. Not only does the agency in effect claim the power to tell firms where they may build factories. It is also suing two states (Arizona and South Dakota) where voters have decided that workers should be

guaranteed a secret-ballot election before their workplace is unionised. Mr Obama has so far said nothing about any of these cases. The president claims he understands business. Condemning the NLRB would be a good way to prove it.

Medicine

There is no alternative

Virtually all alternative medicine is bunk; but the placebo effect is rather interesting



IT IS, you might suppose, always good to have an alternative. In medicine, though, that is a controversial proposition. Alternative and complementary medicine are mostly quackery. Yet they are very popular. Clearly, they have something that mainstream medicine does not. The question is, what?

A few treatments (mostly herbs containing active drug molecules) do have proven benefits. A few others look worthy of further investigation. But from acupuncture, via homeopathy, to "quantum healing", the vast majority, some 95%, offer nothing more than the placebo effect-the strange and inadequately explained tendency of certain medical conditions to respond to anything the patient thinks is directed at treating them, even when the treatment in question could not possibly have a direct effect on the disease.

It is thus a great pity that Edzard Ernst, the first professor of alternative medicine (that is, real scientific professor) and the man who demonstrated that 95% of the industry was hokum, is about to retire early (see article). It is an even greater pity that funding to his department at Britain's Exeter University looks likely to be cut. For the message needs to be broadcast that alternative medicine is a colossal waste of money. Globally, the industry is estimated to be worth some $60 billion a year. That is a lot to pay for placebos.

The world's advertising-standards offices should thus crack down on bogus claims-including the idea that there is such a thing as "alternative medicine" in the first place. If it works, it is a medicine and should be regulated like one. If it doesn't work, it isn't a medicine. Whenever scientifically challenged celebrities, such as the Prince of Wales, waffle on about it in ways that suggest it is outside the realm of scientific scrutiny, they too should be denounced by academics and proper doctors.

That should not, however, blind those proper doctors to the one thing, among all the claptrap, the so-called alternative does have to offer. Placebos can bring relief, especially from nerve-related problems like pain and depression. They may

also reach further than that. There is growing evidence that the strength of a person's immune system is affected by his mental state, too: a healthy mind really does count, especially in an unhealthy body. You do not necessarily have to dress up placebos in the trumpery of alternative medicine: studies show placebos also work when patients are just given fake pills that they think are proper medicines and even when they know they are placebos. But the alternative-medicine industry plainly excels as a placebo delivery service.

Visit more, listen more

For all the nonsense, the industry follows the famed advice of Sir William Osler, one of the fathers of (real) medicine: "care more particularly for the individual patient than for the especial features of the disease." The industrialisation of patient care often depersonalises the process of treatment. The average length of an appointment with a British family doctor, for example, is eight minutes. However, complementary and alternative therapists-perhaps because they are usually private-take much longer. Patients reward them by believing (wrongly but usefully) that it is the specifics of the therapy that are bringing relief, rather than the attention itself. Proper doctors could learn from this. Veterans have always known the importance of a bedside manner. More home visits and fewer telephone consultations might work wonders.

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Letters

On Cyprus, gold, cloud computing, education, LED lighting, infrastructure, the British monarchy

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Letters are welcome via e-mail to letters@economist.com

The Cyprus situation

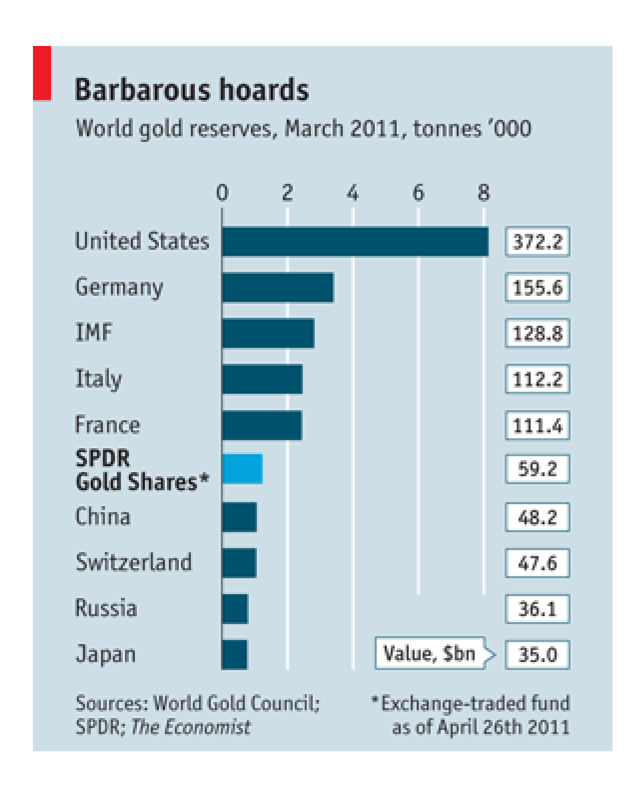


SIR - I would like to challenge some of the points raised in Mr Christofides's letter (April 16th). In regard to the claim that ending the unjust isolation of the Turkish-Cypriots would be tantamount to recognition, the UN Secretary-General, Ban Ki-moon, in his report from December 3rd, 2007, regretted that the "ongoing debate on the lifting of isolation of the Turkish-Cypriots has become a debate on recognition..." and clearly stated that "the maintenance of economic, social, cultural and sporting or similar ties...does not amount to recognition." Given the intransigent position of the Greek-Cypriots, there is more need than ever for the international community to end the isolation of northern Cyprus as this would motivate the Greek-Cypriots to make real progress.

Dervish Eroglu, the president of the Turkish-Cypriots, is fully committed to a fair and comprehensive settlement, as he clearly outlined in his letter to the UN Secretary-General on April 23rd, 2010. It is becoming increasingly clear, however, that the Greek-Cypriots are not interested in result-oriented talks but rather building up pressure on the Turkish-Cypriots and Turkey. This is out of line with the reconciliatory approach required for the success of the good offices mission and is creating a lot of frustration. Instead of blaming Turkey for lack of progress in the talks, the Greek-Cypriots should engage with the Turkish-Cypriots in a more constructive manner.

Mustafa Kemal Beyazbayram
Deputy representative
Turkish Republic of Northern Cyprus
London

Solid gold?



SIR - Buttonwood discussed the possibility of gold as a bubble (April 30th). Of course it is-it has almost no real value and, as you say, no revenue or cashflow. It is an iconic commodity both emotionally as jewellery and intellectually as a stable investment, and has long been a guiding point for commodity inflation. But what gives it that place?

Gold has few uses beyond jewellery, and yet the trading of gold internationally is many times larger than that industry. Today it, like a share with no dividends, is a purely speculative investment and its value is entirely a function of such speculation. A high gold price does not cripple an industry or a nation; the current owners just get richer. A currency with a constant influx, the rise in value of gold is like a great Ponzi scheme where the future must always pay today's bills.

Commodities with stable consumption and high volume production (like wheat and iron) are better indicators of real prices and as they continue to rise inflation is a risk. Gold is different. One day the money will dry up, and the house of cards will fold.

Nils Sandberg
Judge Business School
Cambridge

Cloudy-sky thinking

SIR - I was disappointed that your article added to the hysteria that surrounds cloud computing ("Break-ins and breakdowns", April 30th). In my view cloud computing is like commercial aviation. Which is safer per-mile of travel: aircraft or automobile? Car crashes are responsible for more deaths, yet a plane crash is certain to make the news. For the same reason, cloud computing outages are considered newsworthy. Although the frequent down times of companies' internal IT systems are less publicised, these down times almost certainly cause more harm and lost productivity in aggregate (like car accidents).

Air travel makes people uncomfortable, in part because of a loss of control, no matter how well trained and experienced the pilot may be. Similarly organisations fear cloud computing, preferring to be "behind the wheel". Yet transportation statistics show that desire can be misguided.

Aviation had its share of hype and detractors, but no one would argue that it has not transformed travel. I predict that once the dust settles, cloud computing will be no less transformative.

Milo M.K. Martin
Associate professor of computer science
University of Pennsylvania
Philadelphia

Learning lessons

* SIR - Your briefing on America's jobless men ("Decline of the working man", April 30th), comprehensively covered a variety of reasons for the American jobless condition, but there is another important factor: our diplomas and degrees don't signify the same level of ability to work that they once did. Having taught at university level in the 1950s and then again in the 1990s, I was appalled by the decline in capability of the average college student over that period. College graduates were only at the level of high-school graduates 40 years earlier. Maybe American employers are astute enough to hire an applicant on the basis of their actual ability, not on the academic achievements they submit as evidence.

Harry R. Clements
Wichita, Kansas



* SIR - I found your article fascinating but short on concrete suggestions for improvement. As a middle school English teacher in Denver, I have classrooms full of exactly the kind of minority youth that are destined for the kind of future you mentioned. Although it is unlikely to get any attention, one solution would be to return to northern-European style educational tracking (or streaming). It's a bad word in modern education, and it has its problems in Europe, but at least high-school students there can focus on developing some marketable skills. As it stands today, my students usually graduate with sub-par skills (with few actually completing college) or they don't graduate at all.

Ayal Korczak
Denver

An illuminating point

SIR - You suggested that the only barrier for adopting LED lighting is the initial cost ("A cloud with a green lining", April 30th). This is an oversimplification. The 50% efficiency improvements of LEDs over fluorescent lighting is a significant overstatement based on comparisons with obsolete fluorescent technologies. It also relies heavily on a combination of best-case scenarios, accelerated testing and manufacturers' promises. Promises are not performance-as a recent court case by American regulators attests.

As exciting as the possibilities seem, the case for LEDs depends on how they are used, and has yet to be proven in a variety of commercial and industrial settings. Furthermore, subsidies for a specific technology rather than for general efficiency gains would undermine the robust and competitive innovation currently under way in the lighting industry from a host of emerging technologies.

Michael Colligan
President
Lighting Solutions
Toronto

No through road



SIR - In your article on American infrastructure investment ("Life in the slow lane", April 30th) you argued, "No private firm will bid to build and operate a project that will probably fail to cover its costs through toll or fare revenue".

I wouldn't have such faith in the private sector. There has been a string of failed public-private toll roads in Australia in recent years, thanks to over-optimistic traffic projections by the private partner.

Guy Donald
London

*SIR - Your choice of lead picture was ironic: it is the "before" picture of a large public-works project. In 1996, the northbound lanes of Lake Shore Drive were moved to the west of Soldier Field and the Field Museum. As a lifelong Chicago resident, I can tell you that the Shedd aquarium is no longer visible on northbound LSD, and traffic moves much more quickly than before.

Matthew Barber
Chicago

Monarchists v republicans



SIR - In response to a letter from America, from James Roby Day (May 7th), on the future of the British monarchy, another federation and democracy-Australia-is still struggling with its constitutional evolution, and is coming to different conclusions from Mr Day's romantic monarchism.

Australia has deep affection and respect for the queen, and is unlikely to cut its ties while she reigns. But isn't it modern practice to retire at the usual age, or is a constitutional monarch as immutable as the pope? The weakness of the monarchy lies in the lottery of the first-born: think of "The King's Speech" example and contrast that with more disposable heads of state.

"And what about the Commonwealth?" you say. When heads of former colonies, mostly republicans, meet the queen it is usually for nostalgic, insignificant purposes. But wait, Mr Day, the concept of Commonwealth is good-it's been our title for more than a century and, as with other dominions, our de facto head of state is honourably called the governor-general. It is entirely appropriate to remember a great, no-nonsense Englishman, the Lord Protector Cromwell, instituted the Commonwealth of Great Britain long before the French or American revolutions, and he showed us a model without that Greco-Roman name of republic.

Colin Lendon
Acton, Australia

SIR - It wasn't "the Spaniards [who] dug up their monarchy after Franco died", but Franco himself whilst being alive. And, as usual, without consulting the Spaniards.

Fernando Moral
Santiago, Chile

* Letter appears online only

Dominique Strauss-Kahn

The downfall of DSK

France is in shock and the IMF is in turmoil: the head of the fund, expected by many to be his country's next president, is accused of attempted rape



MARCHED off a plane; arrested; charged with seven offences, including attempted rape; taken before a New York court; sent to Rikers Island jail. The transformation within two days of Dominique Strauss-Kahn from would-be president of France and managing director of the International Monetary Fund into prisoner 1225782, a suspect awaiting trial, prompted gasps of disbelief and consternation the world over, particularly in his native land (where Mr Strauss-Kahn is often known simply by his initials).

Mr Strauss-Kahn is yet to be tried and unless he is convicted his innocence has to be presumed. In a letter of resignation to the IMF's board on May 18th he denied "with the greatest possible firmness all the allegations that have been made against me." But the sorry affair looks certain to wreck his political future, has thrown France's 2012 presidential election into confusion and has left the fund reeling.

The criminal complaint filed by Manhattan's district attorney goes into excruciating detail. It says that at around noon on May 14th the alleged victim, a maid at the posh Sofitel Hotel, near Times Square, entered Mr Strauss-Kahn's room to clean it, where she was ambushed. According to the complaint, Mr Strauss-Kahn shut the door, preventing her from leaving. He grabbed her chest and tried to remove her tights. He forced her to engage in oral sex.

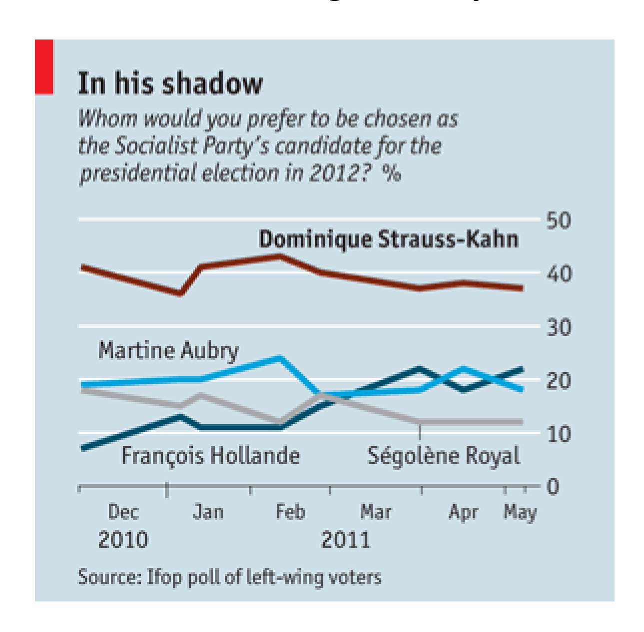
She escaped and told hotel staff, who called the police. Police discovered Mr Strauss-Kahn's whereabouts by chance, when he rang the hotel from Kennedy airport to ask about things he'd left behind. Soon afterwards he was hauled out of

the first-class section of an Air France flight to Paris. He was brought to the New York Police Department's sex-crimes unit in East Harlem, where the maid, an immigrant from Guinea, identified him in a line-up. Handcuffed, he made the "perp walk" in front of rolling cameras and flashing bulbs.

And then to court

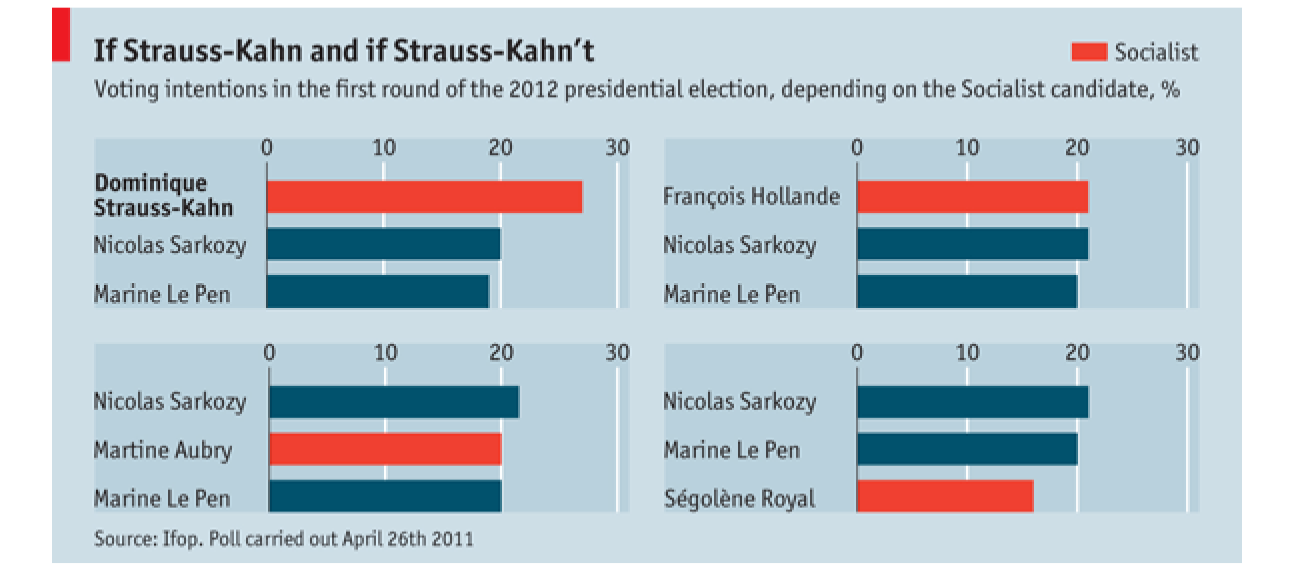
Mr Strauss-Kahn looked tired and rumpled when he appeared in court on May 16th. The most serious charges-two counts of "criminal sexual acts"-carry a maximum sentence of 25 years in prison. His lawyer, Benjamin Brafman, who has represented both stars, such as Michael Jackson and Sean "Diddy" Combs, and mobsters, expected him to be freed on $1m bail, but John McConnell, the assistant district attorney, argued that "he has almost no incentive to stay in this country and almost every resource to leave it," although he had already given up his passport. France has a limited extradition agreement with the United States. Bail was denied. As *The Economist* went to press, Mr Strauss-Kahn was appealing against this decision.

Outside the court, Mr Brafman addressed waiting journalists. He said that it was "quite likely" that his client would "ultimately be exonerated". Mr Strauss-Kahn is due in court again on May 20th.



Mr Strauss-Kahn's compatriots reacted with shock and disbelief. The news was splashed across every front page and beamed non-stop on French television-news channels. Martine Aubry, the Socialist Party leader, called it a "thunderbolt". Others spoke of a "cataclysm" and a "bombshell". This was, after all, the man widely expected next month to declare his candidacy for the Socialists' primary for the presidential election in 2012. Although he was working in Washington, no party rival had come close to Mr Strauss-Kahn's poll numbers since the start of the year (see charts). He was by far the best-placed candidate to beat the unpopular President Nicolas Sarkozy in a second-round run-off and looked likely to top a first-round poll. He had a communications team ready in Paris to run his campaign; in Washington, talk had already turned to finding a successor at the IMF.

Forbidden from political comment by IMF rules, and therefore protected from the petty squabbles of daily French politics, "DSK" had acquired an almost mystical aura in his home country. For the Socialists, who have failed to win the presidency since Francois Mitterrand's re-election in 1988, he was the saviour who would return and lead them to victory. For moderate voters let down by Mr Sarkozy's half-hearted reforms, he was the face of a modernising left that could help France to face up to the reality of 21st-century global capitalism.



As the news sank in, shock gave way to incredulity and talk of a set-up. The charges were impossible to believe, insisted Mr Strauss-Kahn's supporters. His wife, Anne Sinclair, a well-liked French former television presenter, declared that she did not believe "for a single second" that her husband was guilty. Michele Sabban, a Socialist politician from the Paris region, said that she was "convinced that there is an international plot" behind the affair. Even Mr Strauss-Kahn's detractors expressed their doubts. Henri de Raincourt, a minister from Mr Sarkozy's party, said that "one cannot exclude thinking about a set-up". Fully 57% of people questioned by CSA, a polling firm, on May 16th thought that Mr Strauss-Kahn was the victim of a trap.

Such thoughts may have been fuelled by a virulent recent press campaign in France against Mr Strauss-Kahn's wealthy lifestyle, with details of his and his wife's swanky properties in Marrakech, Paris and Washington. A photograph of him in Paris getting into a friend's Porsche set off a heated discussion about whether it is possible to be socialist and rich.

The French, unused to the American criminal-justice system, have been particularly shaken by the sight of an unshaven, handcuffed Mr Strauss-Kahn being led away by New York's finest. Under French law, suspects may not be shown handcuffed, nor their faces exposed. Jack Lang, a Socialist grandee and former culture minister, called such images a "lynching". Bernard-Henri Levy, a celebrity philosopher (this is France), lamented that Mr Strauss-Kahn was being "thrown to the dogs".

It will be months before the facts of what occurred in the Sofitel are tested in court. In the meantime, Mr Strauss-Kahn faces two other difficulties. First, the charges have prompted various other revelations about his relationships with women, none of them flattering. Second, lengthy legal procedures will surely make a political comeback impossible in time for 2012, even if Mr Strauss-Kahn is exonerated.

On the first point, stories of Mr Strauss-Kahn's behaviour range from tales of the enthusiastic pursuit of seduction to allegations of something much darker. It was an open secret long before his arrest that Mr Strauss-Kahn, a former finance minister and economics professor, was an inveterate womaniser. Mr Sarkozy is known to have told a private gathering some months ago that the IMF boss would not survive having his private life put under the microscope. Mr Strauss-Kahn himself told journalists at *Liberation*, a newspaper, over a recent lunch that his electoral weaknesses in France were "money, women and being Jewish". Consensual liaisons, however, are a long way from the alleged events of May 14th. "As much as he is human and has a weakness for women, I simply cannot imagine that he would do something so stupid," says an ex-colleague.

Mr Strauss-Kahn's "weakness" had caused a stir soon after his arrival at the IMF in 2007. The next year an inquiry into an affair he had with Piroska Nagy, an economist at the fund, concluded that he had shown a "serious error of judgment". But it cleared Mr Strauss-Kahn of any abuse of authority and the fund judged that there was "no harassment". Both parties did indeed call the affair between boss and subordinate consensual. Yet in a letter to the IMF's executive board, Ms Nagy also said that Mr Strauss-Kahn was "a man with a problem that may make him ill-equipped to lead an institution where women work under his command".

Much more troubling is a story involving Tristane Banon, a 31-year-old French writer. It emerged this week that Ms Banon had considered filing charges against Mr Strauss-Kahn for sexual assault in 2002 when she went to interview him for a book. Her mother, Anne Mansouret, a Socialist politician, says that, at the time, she advised her daughter against doing so because it was "delicate" and they were close to the Strauss-Kahn family. Ms Banon described the assault in

detail on an obscure television show broadcast in 2007, but Mr Strauss-Kahn's name was beeped out. Ms Banon's lawyer, David Koubbi, said this week that she was intending to press charges against Mr Strauss-Kahn.

Parts of the French media are now deploring their own failure to pursue Ms Banon's allegation-and other tales about politicians. Convention says that the public interest stops at the bedroom door (see Charlemagne). The French are famously indifferent to their politicians' private lives, which are protected by strong privacy laws: affairs are tolerated, if not *de rigueur*, for public figures. Reporters knew, for instance, that Mitterrand secretly kept a mistress and their daughter lodged at the taxpayer's expense, but for years published nothing. Under the same code, Mr Strauss-Kahn's womanising was only obliquely referred to by a comedian here or a blogger there, and never followed up. Now such self-censorship is being revisited. "The protection of private life should not be a pretext for hiding entire sides to the personality of politicians who are candidates to lead the country," wrote Pierre Haski, co-founder of Rue89, a popular news website.

Wanted: un(e) candidat(e)

How long and how deeply France will search its soul, no one knows. What is certain is that next year it must choose a president. The Socialist Party has been knocked sideways by the arrest of its front-runner. Manuel Valls, a fellow Socialist presidential aspirant, said he had tears in his eyes at the sight of Mr Strauss-Kahn in the dock. As the party staggers back to its feet, all candidates for its primary to elect a nominee need to declare by July 13th, ahead of a vote in the autumn.

Mr Strauss-Kahn and Ms Aubry had an informal pact not to run against each other. Ms Aubry, who was the architect of France's 35-hour working week and sits squarely on the left of the party, has at times looked relieved that this would excuse her from a difficult contest. But with her supporters pressing her to stand, it will now be hard for her not to do so. Her rivals would include Segolene Royal, the party's defeated candidate in 2007. But the strongest is Francois Hollande, Ms Royal's former partner, who has quietly been gaining ground. A poll this week suggests that Mr Hollande is the most popular replacement for Mr Strauss-Kahn among Socialist voters, drawing 49% support, against 23% for Ms Aubry and 10% for Ms Royal. Laurent Fabius, an ex-prime minister and party grandee, might also try his chances.

A former party leader with a reputation for consensus-seeking, Mr Hollande lacks magnetism. Next to the hyperactive, mercurial Mr Sarkozy, however, his bid for the title of "normal president" could carry a certain appeal. He has been studiously cultivating an image as a man of the people-though he, like Ms Aubry, Ms Royal and Mr Fabius, was educated at the Ecole Nationale d'Administration, France's elite postgraduate civil-service college-by riding about on a scooter and spending time in deep rural France. In a country hostile to flashy displays of wealth, he once declared, "I don't like rich people."

The effective disqualification of Mr Strauss-Kahn does not make a Socialist victory in 2012 impossible. But it does make the re-election of Mr Sarkozy look more likely than it did a week ago, and the president's team has been under strict orders not to appear triumphant. Much depends on which candidates line up in the first round. If the Socialists now tack left, this could open a space in the centre for an alternative candidate, such as Jean-Louis Borloo, a former environment minister who has quit Mr Sarkozy's party. The arrest of Mr Strauss-Kahn could also strengthen Marine Le Pen, the leader of the far-right National Front. Polls already suggested that she might make it into the second-round run-off, just as her father, Jean-Marie, did in 2002. In transforming his once-untouchable fringe movement into a serious party, she has made a potent appeal to voters fed up with the antics of the political class. Mr Strauss-Kahn's arrest feeds neatly into Ms Le Pen's narrative of a corrupt elite ignoring the concerns of ordinary voters.

So much for the job Mr Strauss-Kahn might have had. What of the one he used to have? John Lipsky, the IMF's second-in-command, has taken temporary charge. The IMF's day-to-day business, negotiating rescue packages with troubled governments, is led by teams of technocrats and will continue. On May 16th the IMF announced the disbursal of euro1.6 billion ($2.2 billion) to Ireland as part of the rescue package agreed on in December.

Nevertheless, the fund is in a pickle. It is embarrassed by Mr Strauss-Kahn's arrest and because its handling of his affair with Ms Nagy has been called into question. A March 2008 report commissioned by its Internal Evaluation Office (IEO) concluded that the fund lacked "clear and protected arrangements for reporting possible misconduct" by its boss and "clear disciplinary arrangements" should such misconduct occur. The fund also finds itself without a man who, whatever his personal failings, has been a highly capable managing director.

As a political heavyweight, Mr Strauss-Kahn was perfectly suited to negotiating with European policymakers over the Greek debt crisis. The Greeks trusted him. He is said to be one of the few non-German policymakers to have had influence over Angela Merkel, Germany's chancellor. Such qualities will be hard to replace-and may be especially important now that the fund's biggest clients are all European countries. The euro51 billion it has agreed to lend Ireland and Greece

exceeds the combined size of its 20 programmes with non-euro-area countries. And on May 17th it agreed to supply a third of the euro78 billion rescue package for Portugal (see article).

Washington wishes

Furthermore, Mr Strauss-Kahn's departure has thrown the fund's succession planning into disarray. He was expected to leave anyway to run for the French presidency; now the choice of a replacement is more urgent and more complicated. Even before he resigned, the fund's board was being pressed to appoint a non-European for the first time. Governments in emerging economies have long argued for this. On May 17th a spokeswoman for the Chinese foreign ministry said China wanted the choice of leading officials to be based on "fairness, transparency and merit"-code for a break with the convention. A senior Brazilian official has said his country favours an emerging-market candidate. So has South Africa's foreign minister.



Situation vacant

Those being talked about include Augustin Carstens, governor of Mexico's central bank and a former fund official, Kemal Dervis, a Turkish ex-finance minister, and Trevor Manuel, a former South African finance minister. Montek Singh Ahluwalia, an Indian ex-head of the IEO, and Stanley Fisher, governor of the Bank of Israel and a former number two at the fund, have also been mentioned. But both are over 65 and thus too old under current rules.

The Europeans, however, are unlikely to give up the boss's chair easily. Christine Lagarde, France's finance minister (who would be the IMF's first female boss), and Axel Weber, a former president of the Bundesbank, are mentioned most. Mrs Merkel has said that there are "good reasons" to replace Mr Strauss-Kahn with another European, such as the fund's involvement in the euro-zone crisis. Not everyone agrees: when Asian or Latin American countries were supplicants of the fund, such an idea would have had short shrift.

Others think a compromise candidate, from a rich country outside the euro zone, might stand a chance. Mark Carney, head of the Canadian central bank, who won praise for guiding his economy through the economic crisis, might be such a man.

Before his fall, Mr Strauss-Kahn had done more than any other recent managing director to restore the IMF's reputation. A few years ago the fund's very relevance was being questioned. But his early and prescient endorsement of fiscal stimulus during the crisis was taken seriously and acted upon. He convinced the governments of both rich and emerging economies to contribute over $500 billion to the fund, tripling the size of its war-chest from its pre-crisis level. His championing of the need to insulate the poor from the effects of fiscal austerity has, many believe, led the fund to become kinder and gentler. Now it is Mr Strauss-Kahn's reputation that needs urgent repair.

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The silence of the right

Social conservatives and the tea-party movement are still waiting for their candidate in the Republican nomination race



THE court ruling that made abortion legal in America is an "abomination", Rick Santorum, a former senator now running for the Republican nomination for president, assured anti-abortion activists in Pennsylvania this week. Meanwhile, in Minnesota Newt Gingrich, a newly-declared candidate, was trying to convince sceptical Christians that it was possible to believe in God and science at the same time. Both he and Michele Bachmann, a congresswoman and potential candidate, spoke at the annual dinner of the Minnesota Family Council, whose mission is "to strengthen the families of Minnesota by advancing biblical principles in the public arena". Running for president will not be easy, Mrs Bachmann admits, but "If this is something the Lord has called us to, he will make a way where there is no way."

Early appeals to "values voters" are a normal part of the campaign for the Republican nomination. Evangelical Christians dominate the Republican electorate in several states with early primaries or caucuses, including Iowa and South Carolina. Populist religious candidates, such as Pat Buchanan and Mike Huckabee, have put in strong showings in the past. Yet Mr Huckabee, despite a second- or third-place finish in 2008 (depending on how you count) and a lead in some early polls this time around, declared he would not join the race on May 14th (see picture). That leaves no clear standard-bearer for the religious right. (The most godless candidate, Donald Trump, a former casino mogul, also ducked out of the race this week.)

One theory holds that the religious right was always likely to have less influence over this election, thanks to the prominence of fiscal concerns since the birth of the tea-party movement three years ago. But the tea party, too, has no anointed candidate. All the leading contenders have gone against conservative orthodoxy on taxes, deficits, health care, global warming or some other cherished cause at some point. Even as the government reached the authorised limit on its debt this week, setting the scene for an almighty partisan dust-up over the budget, few in the presidential field were advocating the sort of radical cuts urged by the Republicans in Congress. In fact, the tea-party activists and the religious right have something in common: for all their denunciations in recent years of RINOs (Republicans In Name Only), the party seems likely to plump as usual for an establishment candidate with a spotty record on their most heart-felt causes.

Take Mr Gingrich. Although a partisan Republican by any standard, he has in the past endorsed the idea of a universal requirement to buy health insurance-anathema to Republican activists since its enactment in Barack Obama's health-care reforms last year. He once sat on a loveseat with Nancy Pelosi, a left-wing demon to many Republicans, in an advertisement backed by Al Gore, an even more fork-tongued figure, to call for action against global warming. His infidelities and divorces call his morals into question, too. And since declaring his candidacy he has made himself look

still more suspect by repudiating the health-care reforms put forward by the Republicans in the House of Representatives as "right-wing social engineering".

Tim Pawlenty, a former governor of Minnesota now competing for the nomination, embraced caps on emissions of greenhouse gases to stem global warming, a policy most Republicans now deride as "a tax on everything" (he recently recanted). Jon Huntsman, a likely contender, has supported carbon caps and civil unions for gay couples and (horrors!) worked for Mr Obama as ambassador to China. Mitch Daniels, another possible candidate, presided over a ballooning national debt as George Bush's budget man, and has called for a "truce" on contentious social issues.

The most obvious misfit is Mitt Romney, the other runner-up in 2008 and the current leader in most polls. He has flip-flopped like a sea-lion on abortion and gay rights. As governor of Massachusetts he signed into law reforms to health care that served as a model for Mr Obama's. He, too, was for curbs on greenhouse-gas emissions before he was against them. On top of all that, he is a Mormon, a faith many Christians view with suspicion.

It is still possible that a candidate with a less chequered record on all these issues will come to the fore. Mr Santorum, for one, has long campaigned against abortion and gay marriage, and can also stake a claim to fiscal purity thanks to the part he played in the welfare reforms of the 1990s. Mr Pawlenty attends a big evangelical church and is loudly advertising his religious convictions. Mrs Bachmann, a darling of tea-party activists, seems likely to enter the race. So too may Sarah Palin, the former governor of Alaska and vice-presidential candidate in 2008. She sent a fund-raising appeal to supporters this week saying "2012 can't come soon enough."

But as Charlie Cook, a political analyst, points out, winning the nomination requires prodigious fundraising and some measure of backing from the party's powerbrokers. Unlike the Democrats, he argues, the Republicans have never nominated an outsider. It is easier to raise money from the businessmen and suburbanites that populate the party's moderate wing than from the poorer, rural voters who tend to back more populist candidates. Mr Huckabee, for instance, only managed to raise $16m during his 2008 campaign, whereas Mr Cook suspects that the winning candidate will end up spending $100m-150m in the primaries. Only Mrs Bachmann and Mrs Palin have the fund-raising prowess to make a strong run, but they are probably still too fire-breathing to prevail.

There are not enough votes on the religious right to secure the nomination, so the successful candidate will have to appeal to less doctrinaire voters too. Mr Cook says the tea party's influence seems to have peaked. Most of the establishment Republicans it helped to upset in primaries in 2010 were the victims of low turnouts and peculiar circumstances unlikely to be repeated in the presidential campaign. Claims of the Republican establishment's demise have been exaggerated.

Index | United States

Mississippi floods

Raging southward

A snowy winter and stormy spring have filled the Mississippi to overflowing



ALFRED HITCHCOCK, who knew about such things, explained the difference between shock and suspense thus. Shock is when a bomb suddenly explodes. Suspense is when viewers see a bomb beneath a table where people are peacefully chatting. Shock is seeing the tops of telephone poles and trees poking above roiling waters on one side of the two-lane causeway between Morganza and Batchelor in Louisiana-particularly when the Mississippi River is on the other side of the road. Suspense is imagining where that water will be in a few days.

And relief is knowing where it won't be: in the streets of New Orleans or Baton Rouge. On May 14th the Army Corps of Engineers created that wall of water when it opened up the Morganza Spillway, sending 600,000 cubic feet of water per second into the Atchafalaya River basin but keeping the floods from reaching Louisiana's two big downriver cities and keeping the river itself from changing course.

The Mississippi drainage basin is exceeded only by the Amazon's and the Congo's. It stretches from Idaho to New York and from Alberta, Canada to the Gulf of Mexico. Heavy snowfalls last winter followed by heavy rainfall this spring swelled the river to levels unseen since 1927, when it flooded over 26,000 square miles, killing 500 and leaving 600,000 homeless.

In the decades following that flood, the Army Corps built a network of levees to hem in the river, along with three big spillways, one of which is just above the town of Morganza. The other two are Birds Point-New Madrid, in south-eastern Missouri just below the confluence of the Ohio and Missouri rivers, and Bonnet Carre, just above New Orleans. The Army Corps blew a two-mile hole in the Birds Point levee on May 2nd, and opened Bonnet Carre a week later. This is the first time all three have been open at the same time.

Bonnet Carre sends floodwater into Lake Pontchartrain, on whose shore New Orleans sits. But the other two open into farmland and small towns in Missouri and Louisiana. Missouri asked two federal courts and the Supreme Court to stop the corps from blowing the levee at Birds Point-to no avail. The Morganza opening caused less friction, perhaps because Birds Point had not been opened since 1937 (the Army Corps had to blow a hole in it), while the Atchafalaya basin is already swampy, and memories of the flooding of New Orleans are fresh.

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Louisiana's governor, Bobby Jindal, says around 4,000 people have been evacuated from the Morganza water's path. Opening that floodway spared not only a repeat of Katrina in New Orleans, it also eased concerns over nine refineries

along the Mississippi that provide around 13% of America's refining capacity. And while heavy precipitation up north swelled the river, drought down south has left the land more absorbent than expected, revising flood projections downward in Louisiana.

The flood is predicted to crest in New Orleans on May 24th, but the Army Corps expects the river to remain at flood levels there until mid-June. John Michael Riley, an agricultural economist at Mississippi State University, expects the economic impact to top $1 billion. Food prices may rise because of ruined corn and wheat crops. Levees will have to be repaired. Traffic on the Mississippi was closed at Natchez, where the river is at 62 feet (20 feet above its level of three weeks ago, according to Anthony Hauer, Natchez's port director). It opened on Tuesday afternoon but remains limited. And some of the states bailing out from once-in-a-century floods are still reeling from once-in-a-century tornadoes.

Tort reform

Sorry, losers

New efforts to control costs could make it scarier to sue



Endangered species?

SOME bills are much more contentious than suspenseful. Take Texas's new "loser pays" measure. The bill, an extension of the state's much-vaunted 2003 tort reforms, would make some people who lose a lawsuit responsible for the legal fees of their opponents. Even some winners would be on the hook, if the jury award is much less than they had previously been offered in a settlement. Rick Perry, the governor, has designated the reform an emergency matter, and on May 9th it easily passed the state's House of Representatives, thanks to the huge Republican majority there. It is now with the state Senate, which also has a Republican majority. They will fiddle with the language. But Mr Perry should be getting his pen ready.

Texas's "loser pays" provision is the latest in a series of such reforms. Tort reform has long been totemic to the political right, which argues that the current system allows trial lawyers to seek extortionate settlements for alleged damages. That creates extra costs for business, encourages litigiousness and warps sectors of the economy. According to some assessments, the costs of the tort system are equivalent to almost 2% of GDP each year.

Tort costs are especially heavy in health care. Many doctors spend thousands of dollars each year, if not each month, on premiums for medical-malpractice insurance-not because American surgeons and dentists are especially disposed to malpractice, but because a lost lawsuit could be ruinous. Tort reform has been back in the spotlight as concerns about

government spending and health-care costs have spurred new looks at cost-saving, confidence-boosting measures. In January, as protesters were preparing to bundle into the Wisconsin state capitol to support unions, Governor Scott Walker signed a package that caps punitive damages for personal injuries, among other provisions. Last week the Tennessee General Assembly passed a similar bill capping non-economic damages.

There is also action at the national level. Congress is considering a bill that would cap awards and lawyers' fees and put a three-year statute of limitations on medical-malpractice claims. According to a report from the Congressional Budget Office, the measure would reduce the federal government's health spending by $34 billion between 2011 and 2021. The projected savings would mostly come from lower premiums, along with a slight decline in "defensive medicine"-doctors ordering unnecessary tests and procedures to cover themselves against possible lawsuits.

Critics say that medical care will deteriorate if damages are capped. There is no evidence of this. Texas's rate of workplace injuries, for example, is lower than the national average. Tort reform can also help states attract or retain businesses and workers, particularly in the health sector.

But even if tort reform could save the country several billion dollars a year, that is still just a sliver of overall health spending. It may be that tort reform is most valuable as a signalling device. It shows that a state cares about business. That would go some way to explaining why tort reform is such a priority for crusading fiscal conservatives. Frivolous lawsuits are, along with criminal aliens and fraudulent voters, a bit of a bogeyman. They do exist, but are hardly as ubiquitous as the thundering rhetoric would suggest.

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Military training in Colorado

No-fly zone

Ranchers fear the noise

FROM the sides of dusty county roads, the plains of south-eastern Colorado look scrubby, dry and empty. Abandoned homesteads are hollow shells on distant hilltops, the only landmarks among endless brown grass. Penniless and starving, farmers left their land in droves in the dustbowl days of the Great Depression. The few people still remaining in the area are mostly ranchers, some of whose families have been there for generations.

But despite their hardiness, the remaining ranchers now worry about a foe more threatening than dust and drought-America's armed forces. Depopulated and apparently similar enough to Afghanistan and Iraq, Colorado's plains have become the perfect training ground for driving around in Humvees and flying combat aeroplanes at low altitudes. There is already a significant military presence in the area, including Fort Carson, a big army base, and an existing army training area, the 235,000-acre (95,000 hectare) PiÃ±on Canyon Manoeuvre Site, opened in 1985.

Buying more land would be cheap but politically risky. Ranchers are still smarting over losing ranches for the original site, which was snapped up contentiously under "eminent domain" (compulsory purchase laws), and local groups worry about overuse, environmental damage and vulnerable historic sites. People are also angry that the air force is keen to increase low-altitude flight training-some say as low as 200 feet-over parts of southern Colorado and New Mexico. Unsurprisingly, fighter jets can spook cattle.

The proposed expansion of the PiÃ±on Canyon site has been a simmering problem for years. One study mentioned aspirations to buy 6.9m acres. No one knows how serious that was, but the Department of Defence has said that it faces a 4.5m-acre shortfall in training space, even though it already owns 25m acres nationwide. Given the existing infrastructure, the area around PiÃ±on Canyon is a good option; in 2007 the Pentagon granted the army a waiver to a moratorium on big land purchases (in effect since 1990), allowing them to buy up to 418,577 acres more.

This has met stiff opposition from local ranchers and sympathetic politicians in Washington and Denver, even though the army later announced that it wanted only 100,000 acres. To quell fears, in 2008 two Colorado congressmen obtained a

temporary funding ban, stopping the army buying more land at the manoeuvre site. To win support, the army has been asking county commissioners to sign a "community covenant" to affirm backing for the presence of the troops and army-driven economic development. Las Animas County refused to sign. Nearby El Paso County, which has a large military and defence industry is all for it, however.

Recent budget shortfalls and shifting training methods should lessen ranchers' worries. Despite proposals for an army aviation brigade to begin training there soon, the army promises not to expand the site for at least five years. Mistrust runs deep, however, and ranchers point out that the land acquisition waiver still remains and they are worried that their new Republican congressman will not favour extending the funding ban. They believe five years of breathing room would still depress land prices and would force them to put off investment in their ranches. For them, the promises don't go far enough. "This ranch has been in my family for four generations," says Steve Wooten, whose land abuts the PiÃ±on Canyon site. "My mission is to make sure this is not the last."

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The housing market

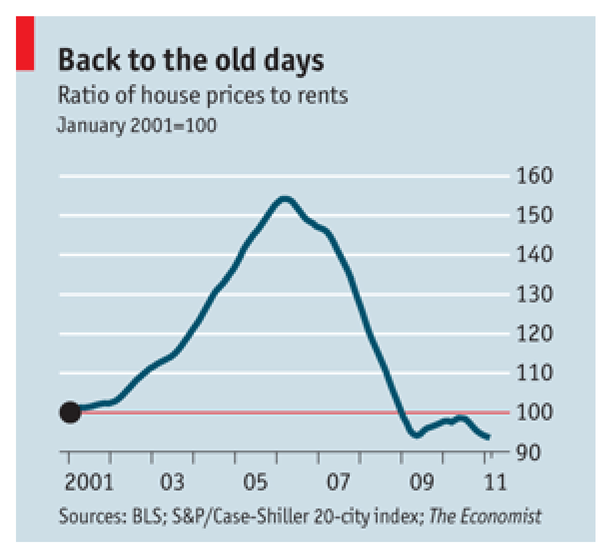
The darkest hour

Signs of hope among the gloom

AT THE ripe old age of five years, America's housing bust is still very much alive and kicking. House prices dropped 3.3% in the year to February according to the S&P/Case-Shiller index, the fastest decline since November 2009. The Federal Reserve's preferred measure, the CoreLogic house-price index, showed an even worse one-year decline of 7.5% in March. And Zillow, an online real-estate database, recently said that prices fell 8.2% in the year to March. Zillow has reported falling prices for 57 consecutive months.

The latest housing hiccup has Americans worried that a new phase of the crash is under way. Two years ago, housing appeared to hit bottom. Prices and sales levelled off thanks to low interest rates and a generous housing tax credit. But that respite ended last summer. The tax credit expired just as a broader economic chill descended, and price declines resumed. Some forecasters expect another 5% to 10% fall in prices before the market rights itself. Robert Shiller, of Case-Shiller index and irrational exuberance fame, reckons a further 25% decline is not out of the question.

That would mean big trouble for the economy. Reductions in construction jobs limit growth, further depressing housing markets. As prices fall, existing mortgages look less affordable and defaults rise. Banks and the two government-sponsored mortgage giants, Fannie Mae and Freddie Mac, are already labouring under the strain of huge portfolios of foreclosed homes. Bulk selling by Fannie and Freddie helps explain the faster decline in prices this year. With default rates still high, banks are demanding better credit ratings and larger down-payments than many first-time buyers can manage.



But there are signs this may be the darkest hour just before the dawn. House-ownership is beginning to look more affordable by many measures. Adjusted for inflation, prices are close to their long-term trend after the bubble years of the 1990s and the first years of the 2000s. And the ratio of house prices to rents has returned to its pre-bubble level (see chart).

Other numbers are looking a lot better. Vacancies for apartments tumbled in the first quarter of the year and are now at a three-year low. Rents have been rising, and analysts expect them to increase by over 4% this year and next. Rent rises typically support house prices by making home-ownership more attractive.

The credit markets are healing. Mortgage borrowing actually rose in the first quarter, according to the Federal Reserve Bank of New York. New foreclosures were 17.7% lower in the first quarter than they had been at the end of 2010, and household delinquency improved for a fifth consecutive quarter. Mortgage rates have fallen back to historic lows, tracking declines in yields on American government bonds.



Explore and compare global housing data over time with our

Perhaps the best news for housing has come from the labour market. The economy added over 200,000 jobs in each of the past three months and over 1.3m jobs in the past year. A better job market enables struggling households to make mortgage payments, reducing foreclosures. For most of the bust, borrowers that fell behind on their loans were likely to end up in serious difficulties. In the first quarter of this year, for the first time since 2007, more mortgage borrowers caught up with their payments than fell further behind.

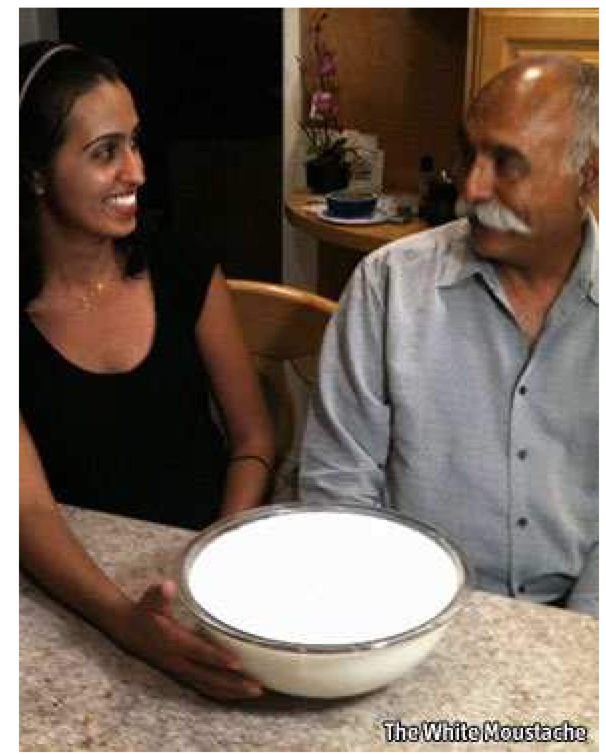
Job growth may also set loose what economists call "shadow demand". Some households, especially young workers, shared homes during the recovery to economise but can now afford to move out. Above all, the construction business has been so depressed that even a minor spurt in demand from new households could give prices a lift. If that, in turn, boosts construction employment, a vicious housing cycle could turn virtuous.

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Red tape in California

Beware of the yogurt

The authorities save Californians from a phantom menace



You can't do that here

HOMA DASHTAKI and her family came to America from Iran in 1984 and settled in a neighbourhood of Orange County, California favoured by fellow Zoroastrians. The Dashtakis are the kind of immigrants who give California its vibrancy. Ms Dashtaki's father brought with him a tradition from the old country: the secret of making fantastically good yogurt, the sort that has foodies fighting one another as they throng California's farmers' markets. So Ms Dashtaki, spotting a marketing opportunity in her father's magnificent facial hair, called their little venture "The White Moustache" and prepared to become that all-American immigrant archetype: the entrepreneur.

Alas, after three months of operating (for about $300 in revenues a week, and no profit at all), she encountered that other American tradition, red tape (after the red bands that used to hold bundles of bureaucratic papers together in the old days). For although she had spent a year getting the required permits from Orange County, she had, it turned out, yet to make the acquaintance of the "milk and dairy food safety branch" of the California Department of Food and Agriculture (CDFA). On a Saturday morning in March, Ms Dashtaki got a call and was told to shut down or risk prosecution.

If the Dashtakis were readers of such publications as *Chief Executive*, they might have had an inkling that this would happen. This month, that magazine published its latest ranking of America's states by their business climate, and California once again came in 50th. (Texas, which likes to see itself as California's nimbler rival, again topped the list.) But Ms Dashtaki does not read *Chief Executive*, nor indeed is she one, so she had no idea.

Her business, while it lasted, consisted of herself, making yogurt on the instructions of her father. Ms Dashtaki was renting space in the kitchen of an Egyptian restaurant where she and her father, "like elves before and after their working hours", lovingly cultured their yogurt under a blanket, then drained it through a certain kind of cheese cloth, then stirred it for hours, and so forth. For the taste to be divine, everything has to be just so. And, being artisans, they kept the volume tiny, about 20 gallons (76 litres) a week, for sale only at local farmers' markets.

Ms Dashtaki and her father say their yogurt is safe. It always has been, both in Iran and in America. Nonetheless, she was eager to demonstrate the safety of her process and to comply with all regulations. Hence her surprise when she researched just what those regulations said.

For a start, they date back to 1947. When she pointed out to Stephen Beam, the head of the CDFA's Milk and Dairy Food Safety Branch, that the rules might be somewhat out of date, Mr Beam replied that the rules have been "amended many times in multiple areas during the past 60-plus years". But when Ms Dashtaki researched those modifications, they turned out to concern only frozen or "soft-serve" yogurt, not the regular sort, and they still made no allowance at all for yogurt made from pasteurised milk.

The core assumption behind the CDFA's rules, however, is that all dairy products are made from raw milk, thus requiring elaborate processes that involve proper pasteurisation. The White Moustache, however, was making yogurt from milk that

was already pasteurised-Ms Dashtaki bought her inputs from a fancy (and regulated) grocery store in half-gallon glass jugs. Ms Dashtaki thus hoped for a waiver. Absolutely not, replied the CDFA in a communication full of legalese that Ms Dashtaki calls "Kafkaesque".

The regulator demanded instead that Ms Dashtaki set up a "Grade A" dairy plant, just as a large factory processing raw milk would be required to do. She was told to install, among other things, a "pasteuriser with a recorder", a "culture tank", and a "filler", which apparently also required a "mechanical capper" to screw lids on jars. When Ms Dashtaki pointed out to the CDFA inspector that all this would alter-meaning ruin-the taste of her father's artisanal yogurt, the inspector agreed. But that does not fall within the remit of the state of California's dairy regulations.

Ms Dashtaki soldiered on. Then a licensing officer told her that the code does not permit milk to be pasteurised a second time. So "in order to comply with the order to re-pasteurise my already pasteurised milk, I would need to get exemption from the head of the CDFA," she explains. The tale thus went from Kafka to Catch-22.

Ms Dashtaki would have been happy to label her yogurt-"This product does not meet CDFA codes", or perhaps "The Moustache kills", as she suggests. Not allowed. The argument that her target audience consists of sophisticated gourmets at farmers' markets fell flat, too.

So The White Moustache remains just a wispy little thing. Ms Dashtaki is pondering whether to move to another state, one whose rules allow for artisanal products. She would not be the first entrepreneur to flee the Golden State. Or she might just give up. After all, one has to make a living. It looks like California's regulators have triumphantly saved their population from the threat of mass poisoning once again.

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Banning circumcision

Against the cut

The "intactivist" movement takes on the oldest surgery known to man



Not in San Francisco

"MALES need protection as females do," says Lloyd Schofield, the main sponsor of a local ballot measure in San Francisco that, if voters pass it in November, would in effect make circumcision of babies illegal in that city. A federal

law and various state equivalents indeed ban female circumcision, whether performed as a religious rite or not. So-called "intactivists" such as Mr Schofield therefore quite reasonably ask why the cutting of a baby boy's foreskin should be any different.

Circumcision arrived in America not primarily with Jewish immigrants but as a Victorian British fad, in which the original stated objective was to discourage masturbation and nocturnal emissions. The practice spread during the 20th century, and became almost universal by the 1960s. But in recent decades, circumcision has been declining, to about half of baby boys as of 2008.

The culture of the San Francisco Bay Area often exalts anything natural, from birthing to eating. So it is no coincidence that Marilyn Milos, a former nurse who has been called "the mother of the American genital-integrity movement", is based in Marin County, just north of San Francisco. Many paediatricians in the area advise parents against circumcision.

In the medical part of the controversy, the early claims of benefits (such as the decrease of "spermathorrea") have largely been debunked. Others, such as a decrease in penile cancer in later years, remain controversial. But recent studies from sub-Saharan Africa have shown that circumcision can reduce male rates of HIV infection. Intactivists counter that this hardly justifies what they call the amputation of a body part from infants who might never be at risk of HIV. Ms Milos still recalls a particularly terrifying circumcision in 1979, which she attended as midwife. "You never forget the screams," she says. "I was witnessing the torture and mutilation of a baby."

The constitutional issues of a ban promise to be even more controversial. Jews, of course, can argue that God's covenant with Abraham requires them to circumcise their boys, thus making the practice a matter of religious freedom.

But Supreme Court precedent is mixed. Many religious practices (such as polygamy, once practised by Mormons) are clearly illegal. In a 1944 case concerning a Jehovah's Witness who had custody over a nine-year-old girl, the court stipulated that "parents may be free to become martyrs themselves. But it does not follow they are free...to make martyrs of their children before they have reached the age of full and legal discretion." Yet in a case in 1972 the court upheld the rights of Amish parents to refuse, on religious grounds, to send their children to school beyond 8th grade.

Whatever the fate of his proposed law, Mr Schofield seems most interested in changing minds. He is thrilled that many Jews signed his petition. Some have begun practising an alternative ceremony; *brit shalom*, the "covenant of peace", which involves no cutting.

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Lexington

Apollo plus 50

The meaning of the race to the moon, half a century after the starting gun



FIFTY years ago, on May 25th 1961, President John Kennedy summoned a joint session of Congress and asked America to commit itself to the goal, before the decade was out, of landing a man on the moon and returning him safely to Earth. If it succeeded, he said, it would not be one man going to the moon-"it will be an entire nation". A little over eight years later, when Neil Armstrong became the first man to step on to the lunar surface, the snowy images beamed down to Houston stamped an indelible memory on a generation of earthlings.

Some say that Kennedy conceived of the race to the moon principally to recover from the fiasco of the Bay of Pigs. John Logsdon, the doyen of American space studies, takes a more generous view in his new book ("John F. Kennedy and the Race to the Moon", Palgrave Macmillan). Kennedy was not especially interested in space, and said as much in private. But after the Soviet Union sent Yuri Gagarin into orbit he believed it to be vital for America to take on and beat the Soviets at something very hard. The moon fitted this need like a glove. Planting a man on its surface required no big technological innovations, says Mr Logsdon, "just very expensive mastery over nature using the scientific and technological knowledge available in 1961".

As to whether it is was worthwhile, there is no accountant's answer even 50 years on. The Apollo project cost about $150 billion in 2010 dollars, five times as much as the Manhattan Project and 18 times the cost of digging the Panama Canal. It is not easy today to remember how imperative it seemed back then for the free world to show that it could outperform its totalitarian rival. But the moon landing was more than a win in the cold war. It also changed the way people of all nations thought about themselves and the planet they share. It showed that it really was possible for man to step out of this world into another. Apollo 8's photographs of a little Earth, shining vulnerably in a great black emptiness, made people aware of the planet's fragility and helped to spur the green movement.

And yet the jubilee of the Kennedy speech comes at a difficult time for American space policy. The launch this week of the space shuttle *Endeavour* received special attention because it was commanded by Mark Kelly, the astronaut husband of the wounded Arizona congresswoman, Gabrielle Giffords, who has recovered well enough from January's shooting to see him off. More significant, it is *Endeavour*'s last flight. When *Atlantis* makes its own final voyage in mid-July, the whole 30-year programme of shuttle flights will come to an end.

The shuttles never captured the public imagination in the manner of the moon programme. How could they? These were workhorses, hurled aloft by rockets but landing like aeroplanes so they could be used time and time again. They were confined to low-earth orbit, where they did the unglamorous job of launching satellites or ferrying astronauts to the International Space Station. Public opinion was shocked by the tragedies, such as the losses of *Challenger* (1986) and *Columbia* (2003), but unmoved by the workaday successes. And there was, in fact, less success than advertised. They were too cantankerous to fly as often or as inexpensively as planned, so the hope of doing things more cheaply in space evaporated. Nothing came of the dream that men would build factories in space to grow exotic crystals or spin fabulous metals that could not be made on the gravity-polluted Earth.

What the shuttles did provide, however, was a way for America to carry people into low-earth orbit. Once the fleet is grounded, America will for a while have no means of its own to deliver men and women to any part of space. After the usual energetic lobbying by aerospace companies and other vested interests, Congress has ordered the National

Aeronautics and Space Administration (NASA) to build a mighty new rocket, bigger than Apollo's Saturn V, capable of lifting a manned vehicle into deep space. But Mr Obama has cancelled plans to revisit the moon, no other destination has been specified, and this "rocket to nowhere" will not be ready until 2016 at the very earliest. In the meantime, American spacefarers bound even for low-earth orbit will have to hitch a ride on a Russian craft or one of the as yet unproven vehicles under development by the private sector.

To many Americans, neglecting human space flight this way looks like a sorry end to the glorious chapter Kennedy opened half a century ago. He set out to make America's achievements in space an emblem of national greatness, and the project succeeded. Yet it did not escape the notice of critics even at the time that this entailed an irony. The Apollo programme, which was summoned into being in order to demonstrate the superiority of the free-market system, succeeded by mobilising vast public resources within a centralised bureaucracy under government direction. In other words, it mimicked aspects of the very command economy it was designed to repudiate.

A glorious one-off

That may be why subsequent efforts to transfer the same fixity of purpose to broader spheres of peacetime endeavour have fallen short. If we can send a man to the moon, people ask, why can't we [fill in the blank]? Lyndon Johnson tried to build a "great society", but America is better at aeronautical engineering than social engineering. Mr Obama, pointing to competition from China, invokes a new "Sputnik moment" to justify bigger public investment in technology and infrastructure. It should not be a surprise that his appeals have gone unheeded. Putting a man on the moon was a brilliant achievement. But in some ways it was peculiarly un-American-almost, you might say, an aberration born out of the unique circumstances of the cold war. It is a reason to look back with pride, but not a pointer to the future.

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Brazil's north-east

Catching up in a hurry

The country's poorest region is narrowing the gap with the prosperous south



IN 1983 *Jornal do Brasil*, a newspaper in Rio de Janeiro, sent a reporter to Brazil's north-east to cover a drought. He found starving residents eating rats and lizards. Since then, the country has made strides. Yet the north-east remains

Brazil's poorest region: it has 28% of the country's people but just 14% of its GDP. A fifth of the area's adults are illiterate, twice the national rate. And it holds more than half the 16m Brazilians who live on less than 70 reais ($43) a month. For decades it has exported workers to the kitchens and construction sites of the rich cities in the south-east.

Recently, however, the north-east has become Brazil's star economic performer. In the past decade the region's GDP rose by 4.2% a year, compared with 3.6% for the country as a whole. Last year Pernambuco state's economy grew by a China-like 9.3%.

Bolsa Familia, Luiz Inacio Lula da Silva's much-lauded anti-poverty scheme, has been important, says Marcelo Neri of the Fundacao Getulio Vargas, a research institute. But other government policies have helped more. Three-quarters of the growth in incomes since 2003, when Lula became president, came from earnings, not handouts. In real terms the minimum wage has risen by around 60% over the same period, with the greatest benefits felt in the north-east. The institute reckons that Crediamigo, the state-owned Banco do Nordeste's micro-credit programme, has lifted more than 1m north-easterners out of poverty.

The region's new-found buying power is attracting firms. Earlier this month Kraft Foods opened its first factory in the area, making chocolate and powdered drinks. Sudene, a government regional-development agency, has helped to finance 52 malls in the north-east since 2006. And migrants from the north-east are coming back home to work. Pao de Acucar, a supermarket chain, is expanding in the region, and offering north-eastern natives working in its other stores the chance to transfer.

"Right now, the north-east is one big building site," says Fernando Bezerra Coelho, the federal integration minister. The government is investing heavily in public works, including widening the Atlantic coastal highway. But the main source of growth is the port and industrial complex of Suape, which is being expanded to handle bigger ships. A petrochemical plant, the southern hemisphere's biggest shipyard and a refinery owned by Petrobras, the state-controlled oil company, are under construction. Over 100 firms have moved in, lured by tax incentives and what should be excellent transport links. Fiat is spending 3 billion reais on a car factory nearby.



By 2013, if all runs to plan, a new railway will link Suape to the north-eastern interior (see map). The federal government began building it in 1990, but it stalled for lack of money and only restarted in 2006. A second branch will travel north to the port of Pecem, which is also being expanded. There, the Ceara state government is setting up an institute to train 12,000 workers a year, and Petrobras is building another refinery. Paulo Roberto Costa, its downstream director, envisages trains taking soyabeans, corn and iron ore from the interior to the ports and returning with oil. Journey times to Europe and America will be three or four days less than from south-eastern ports. The 1,728-km line will one day carry 30m tonnes of cargo a year.

Odebrecht, the Brazilian firm building the railway, recently flew your correspondent to Salgueiro, where its two coast-bound branches meet. The line's 3m concrete sleepers are being cast there, and the ballast on which they will lie is quarried nearby. Paulo Falcao, the project director, is preoccupied with a novel problem for the north-east: a labour shortage. Even though word of the grand projects dotted around the north-east is attracting workers from all over the

country, the demand is such that Odebrecht is training everyone from carpenters and bricklayers to truck drivers and forklift operators itself. Some have no previous construction experience. A fifth of the employees at Salgueiro are women.

"China is now the Japan of the 1960s," says Eduardo Bartolomeo, the director of logistics for Vale, a mining firm. In that era Japan's appetite for metals funded Vale's big investments in rail and sea transport. Today China's hunger for iron ore pays for its infrastructure projects. By 2015 Ponta da Madeira, Vale's private port, will be Brazil's largest by tonnage, exporting 230m tonnes of iron ore a year. The railway from the Carajas mine in Para state to the dockside is being upgraded to carry 330-car trains, each 3km long, at a cost of 4.5 billion reais.

The benefits, says Mr Bartolomeo, will extend beyond mining. He points to the Norte-Sul railway as evidence. Since 2007, when Vale started to operate the line, soyabean production in the surrounding region has risen by 8.5% a year, and the price of land has more than doubled in places.

The region's rapid pace of development, combined with workers' new-found muscle-flexing, has led to some industrial unrest. The strain is also evident in traffic jams and soaring housing prices. In Ceara Adail Fontenele, the state secretary of infrastructure, says that the municipalities around Pecem are preoccupied with finding homes for the city's new workers. If decent lodging is not built fast enough, slums may spring up instead.

The biggest risk is that the region fails to tackle its other longstanding weakness: poor education. "We have seen infrastructure booms in the north-east before, and they have helped us to catch up," says Alexandre Rands of Datametrica, a consultancy. "But the past 60 years have shown that infrastructure is not enough." The big firms are training the workers they need. But the north-east spends less on schools than the national average, and has weaker teachers. If its next generation is to benefit fully from what today's is building, the region's schools must get an upgrade, too.

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Bribery in Mexico

Where the kickbacks kick



On May 10th Transparency International, an anti-corruption outfit, published a survey of 15,000 Mexican homes on bribery. It found wide regional variations. Palm-greasing was far more common in and around Mexico City than in Baja

California Sur, suggesting more-populated areas have more unmet demand for public services. Overall, Transparency reckons Mexicans paid 32 billion pesos ($2.5 billion) of bribes in 2010.

Colombian football

Red card

A better country off the pitch is worse on it

THE worst of times for Colombia's security were the best of times for its professional footballers. In the 1980s and early 1990s the *capo*s of Colombia's drug gangs engaged freely in politics and legitimate business. Sport was no exception. Pablo Escobar owned Atletico Nacional; Millionarios belonged to Jose Gonzalo Rodriguez Gacha, a rival drug trafficker; and the Rodriguez Orejuela brothers of the Cali "cartel" held shares in America de Cali. Offering astronomical salaries, their teams lured foreign stars like Argentina's Julio Cesar Falcioni and Ricardo Gareca. In 1991 Colombia's top league averaged a healthy 15,423 fans per game.

Since then Colombia's government has broken up the mobs. But football clubs have had trouble adapting. Per-game attendance has fallen: last year it was just 8,099. Colombia's national team have not qualified for the finals of a World Cup since 1998. According to Rafael Arias, the general secretary of Dimayor, the league's governing body, the old influx of easy cash encouraged clubs to spend freely. When the money dried up, they were left with huge debts.

America de Cali, which won five consecutive national titles in the 1980s, has been on the United States Treasury Department's list of groups tied to drugs for 12 years, crippling it financially. It now owes its players ten months of back pay. Last month Coldeportes, the government's sport regulatory agency, barred it from playing until it pays its wages. Deportes Quindio, whose players refused to travel to Bogota last month over withheld pay, and the Once Caldas club were also penalised.

Moreover, the clubs' ties to crime have been hard to shake off. Mr Arias says their financial woes are "proof that drug money in football is a thing of the past." But last year prosecutors alleged that the Norte del Valle mob, one of Colombia's biggest remaining drug gangs, was using the Santa Fe team to launder money. In October police seized $161m in cash that prosecutors say was destined to be channelled through the club's coffers. They are now questioning Ignacio Alvarez Meyendorff, an alleged kingpin who was arrested in Argentina in April, about the team's role in the scheme, which may have involved up to $1.5 billion.

Juan Manuel Santos, the president and a Santa Fe fan, has tried to clean up the sport. On May 12th he signed a law creating incentives for clubs to become limited companies and attract new investors, and requiring them to report to the finance ministry's money-laundering unit. Shareholders now must show the origin of the money they invest in teams, and clubs cannot play if their payrolls are more than 60 days in arrears. Moreover, *barras bravas* (hooligans), whose penchant for vandalism and violence has discouraged law-abiding fans from attending matches, can be jailed for up to ten years for using explosives. "Either we change football or it will be over for us," Mr Santos said last December, as Congress considered the bill.

But the benefit of these reforms is unlikely to be felt by July 29th, when Colombia sees the kick-off of the FIFA under-20 World Cup-the biggest international sporting event ever held in the country, for which over 250,000 tickets have already been sold. Clubs must comply with the new financial restrictions by August 20th, and are asking the government for subsidised loans to tide them over. It will take a while, as Mr Arias says, to "clear the scoreboard" of Colombian football.

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India's state politics

Red dusk

A landmark in the politics of West Bengal. Nationally, some confusing signals



NEWS travels slowly in parts of India. Two decades after the rest of the world sent Communists packing, the voters of West Bengal have at last followed suit. On May 13th the results from a series of big state elections, affecting nearly 230m people across India, brought an expected historic landslide: the Marxists who had run West Bengal for 34 unbroken years were unceremoniously turfed out.

The wonder is that it took so long. The Communists' support among rural voters was based on 30-year-old land reforms. Kolkata (Calcutta) and other cities have missed out on India's recent boom. Last-ditch efforts to lure investors, famously Tata Motors, to special economic zones foundered as the state government failed to get farmers to give up land.

Mamata Banerjee, until now the national railways minister, did most to slay the bewildered Communist dragon. Her Trinamul Congress scooped 226 seats in the state assembly, in alliance with the Congress party that runs the federal government, compared with just 62 for the "left front". Running West Bengal, a state of 90m, will be harder than populist campaigning. Already post-election violence has killed at least eight Communist activists, despite Ms Banerjee's appeals for restraint. She has bright plans and advisers. But investors will be wary. She made her name defending farmers' land-rights and led the at times violent campaign that scuppered Tata's flagship project to build the Nano micro car in the state, which in turn deterred other businesses. She is an unlikely figure now to persuade farmers they must, after all, give up scarce land to industry. For her allies in Congress, her success is not likely to have made a volatile partner any more emollient.

The Communists also lost the southern state of Kerala, where they had ruled for the past five years. Kerala tends to follow the "anti-incumbency" trend in states: power alternates. That Congress only squeaked into power should provoke some soul-searching. In Kerala and elsewhere, candidates promoted by the party's youngish leader-in-waiting, Rahul Gandhi, did especially badly. He has yet to show that he is a strong election campaigner-the main role of those with the Gandhi name, after all.

But he has shown flashes of inspiration. On May 11th he rode pillion as a motorcycle whisked him unnoticed, before dawn, to villages in Uttar Pradesh, near Delhi. There, say locals (though some have since retracted), police have been murdering farmers who refuse to give up land for road-building. Mr Gandhi has taken up their cause, and even managed to get himself briefly arrested. He blames Congress's opponent, the state's populist chief minister, Mayawati.

In Tamil Nadu, a large southern state, Congress's local ally (and national coalition partner), the DMK, was routed as voters vented their anger over a telecom-licensing scandal. By contrast in Assam, a north-eastern state troubled by militants, Congress swept back to power, apparently because voters approve of its peace efforts.

Unpicking lessons from such state elections is notoriously tricky. An optimistic analysis is that Indian voters are growing less loyal to parties or leaders who claim a following based on who they are (through their caste affiliation, say), rather than what they do. Voters look less tolerantly on rulers who perform badly. They have returned incumbents-such as Nitish Kumar's government in Bihar, a poor northern state, last year-who are good managers and bring better schools, hospitals and roads, or those who bring more stability, as in Assam. By contrast, poorly performing rulers, eg, in West Bengal and Tamil Nadu, have been sent packing.

Such a trend, if true, would be an encouraging sign of a maturing electorate. However, it is belied by another one: many voters also seem more smitten by populist individuals than by parties setting out coherent policies. For example, few in West Bengal can spell out what the energetic Ms Banerjee stands for. In Tamil Nadu Jayaram Jayalalitha, a former actress, wowed voters with promises of free rice and other goodies. They made her chief minister for the third time.

By contrast, the strongest opposition party at the national level, the Bharatiya Janata Party (BJP), picked up just 0.6% of all assembly seats returned in these polls. The BJP retorts that it was campaigning largely beyond its heartland (the Hindu "cowbelt" in the north). But that, too, points to a discouraging fragmentation in Indian politics: politicians and parties wildly popular in one state often fail utterly to appeal beyond their home regions. The BJP had pointed to success in Tamil Nadu's neighbour Karnataka in 2008 as evidence that it could branch out southward. Only it and the Communists have in recent times tried to rival Congress as parties that can appeal nationally. Both did dreadfully this time around.

A general election may well not be held until 2014. These state polls probably say little that is directly relevant to them. Before 2009, for example, Congress fared woefully in a series of state polls, provoking dire predictions for the party's national prospects. Yet it romped back into power with an increased majority. And for all Mr Gandhi's shortcomings as a campaigner, Congress's rivals have yet to find a candidate for prime minister with comparable crowd-pulling power. These were not good election results for Congress. But they were worse for its opponents.

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China and Tibet

Go back to law school

An elected leader is the last Tibetan China wants to talk to



Never mind, Lobsang. We still like you

AS CHINA gears up to celebrate the 60th anniversary of its annexation of Tibet, it has issued a stinging rebuff to the newly elected prime minister of the Tibetan government-in-exile, Lobsang Sangay. The winner of an election among Tibetans outside China, Mr Sangay will have a higher profile than his predecessors, because the Dalai Lama, Tibet's spiritual leader and international figurehead, has said he will withdraw from his political role.

So Mr Sangay, a 43-year-old fellow at Harvard Law School, has been visiting his electorate, most of whom are in India, and discussing his plans. He offered to negotiate with China "anytime, anywhere". China responded through an interview in an official magazine, *China's Tibet*, with Zhu Weiqun, a frequent Communist Party spokesman on Tibet.

Mr Zhu's contempt at "that government-in-exile of his" almost splutters off the page: "It's all just a separatist political clique that betrays the motherland, with no legitimacy at all and absolutely no status to engage in dialogue with the representatives of the central government."

So the Dalai Lama's decision to democratise his government-in-exile seems to have made reconciliation with China even less likely. At least, under the old dispensation, a series of fruitless talks between China and Tibetan exiles had lurched ahead every few months since 2002, usually breaking down in acrimony. Even that now seems too much to hope for.

Yet Robert Barnett, a Tibet expert at Columbia University in New York, points out that there is nothing new in China's rejection of Mr Sangay's overture. It has never had any truck with the government-in-exile. The Tibetan side in the talks has always been filled by the Dalai Lama's representatives. That practice can still continue. Indeed, the Tibetan exile parliament, discussing a new constitution, last month approved a draft asking the Dalai Lama and his successors, despite his retirement, to "speak on behalf of the Tibetan people, to explain and discuss their concerns and needs as well as to appoint representatives and envoys to serve the interests of the Tibetan people in any part of the world."

By distancing himself from the exile government, the Dalai Lama has in effect met a Chinese demand. China could, if it chose, regard it as a concession. It could also look that way on the Dalai Lama's resignation statement in March, in which he said that two pro-independence "political promulgations" he had made in the past would become "ineffective". The Dalai Lama has long given up the demand for independence in favour of enhanced autonomy under Chinese sovereignty. China has always presented this as a tactical ruse.

China seems to hope that with the passing of this Dalai Lama, Tibetans, deprived of a leader with superstar status and following, will give up the struggle. He seems in good health, but is now 75. So it may have been alarmed by the Dalai Lama's remark at a press conference in New Jersey, America, this month, that Tibetans are close to "finalising" the process for finding his successor, that is, his reincarnation as the 15th Dalai Lama. He said that all the schools of Tibetan Buddhism are involved in this.

This unity among the various schools would be unprecedented-and important, since it seems quite likely that the next incarnation of the Dalai Lama will be contested, with one candidate backed by China and one, probably in exile, revered by most Tibetans.

The Dalai Lama appears to retain the loyalty of most Tibetans inside China, too. The focus of Tibetan resistance since March has been around the Kirti monastery in an area of Sichuan province that Tibetans regard as Amdo, part of historic Tibet. Protests that started with the self-immolation of a young monk have seen hundreds of monks detained, two elderly laypeople killed trying to protect them, a continuing heavy security presence in the area, and the burning of books not approved by the authorities.

So, as it celebrates, on May 23rd, the 60th anniversary of the "17-point agreement" in which a young Dalai Lama agreed to accept Chinese sovereignty over Tibet, China knows there is no immediate threat to its rule, but that many Tibetans still resent it. Still, it is, for China, a peculiar document to commemorate. The Tibet it envisages-under Chinese sovereignty but autonomous-seems closer to the Dalai Lama's demands than to present arrangements. China promised not to alter "the existing political system in Tibet", a promise swept aside in 1959 as it crushed a Tibetan rebellion and the Dalai Lama and 80,000 followers fled into exile. In 1951 the political system was a feudal theocracy. Now that exiles enjoy the forms of parliamentary democracy, they find China no more trustworthy. China, in turn, finds the exiles' political system no more appealing.

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Singapore and Lee Kuan Yew

Not fade away

A founding father retires in his own way



Lee Kuan Yew plays chess, as the prime minister looks on

SOMETIMES it seems that the founding father of Singapore, Lee Kuan Yew, has spent more time trying to tear himself away from running the island-state than he did ruling it in the first place. Now 87, he was Singapore's first prime minister, serving for 31 years until 1990.

At that point, Mr Lee did not slip quietly off to the links. Rather, he remained in the cabinet as "Senior Minister". In 2004 a new cabinet post of "Minister Mentor" (MM) was invented for him in the government headed by his son, Lee Hsien Loong.

On May 14th, however, MM announced that he was resigning at last from the cabinet. For any other politician of his age, that would be that, a statesman's final flourish. The tame mainstream Singapore media treated the event as such.

Don't believe a word of it. For a start, Mr Lee will retain the parliamentary seat that he won, uncontested, in the general election on May 7th. He will surely continue speechifying from the backbenches, as he did in the previous parliament, on almost every topic under the sun. He will intervene in public debates and write more books, all in his quest to keep Singapore on the straight and narrow. To quote the man himself (from 1988): "Even from my sickbed, even if you are going to lower me into the grave and I feel that something is going wrong, I will get up. Those who believe that after I have left the government as prime minister, I will go into a permanent retirement, really should have their heads examined."

Telling, perhaps, is the timing of his (semi-) going. The party that he helped to create, the People's Action Party (PAP), which has ruled Singapore continuously since separation from Malaysia in 1965, has just endured its worst-ever pasting at the polls. The opposition won just six out of the 87 contested seats. But had it not been for the peculiarities of the first-past-the-post voting system, it would have won more. Shockingly, the PAP share of the vote dropped to just 60.1%. Only a decade ago the party was picking up over 75%.

In election post mortems, the party acknowledges a failure to connect with voters. Mr Lee remains a revered figure in Singapore. But some say the prime poll culprit is Mr Lee himself. Once a supreme electoral asset, younger Singaporeans do not remember his glory days. A straight-talking, almost bullying tone no longer washes with confident, more cosmopolitan voters.

Too often, party colleagues were left to fight the fires after another round of good old plain-speaking from MM. He upset ethnic Malays by remarking they had not adapted well to Singapore. He infuriated many when he said people who voted against the PAP in one constituency would have "five years to live and repent" their decision. That constituency went to the opposition, and Singapore's very good foreign secretary lost his seat.

More Singaporeans now seem readier to move into a new era. The PAP will have to reflect that, or wither. It is unclear whether a few men in white shirts took MM aside for some plain-speaking of their own, or whether Mr Lee took the decision by himself to resign from the cabinet. The result is the same. The founding father will continue to opine, but the PAP will have a little more wriggle room to change.

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Fiji and Tonga

Island asylum

Tensions between neighbours rise



SEVERAL hundred years ago, the Pacific island state of Fiji was a place of refuge for exiled princes from neighbouring Tonga. Now it is Tonga that serves as a destination for Fiji's blue-blooded asylum-seekers. Roko Tevita Uluilakeba Mara, the youngest son of the modern state's founder, the late Ratu Sir Kamisese Mara, fled by sea, with the Tongan navy's help. He is now under the protection of the homburg-wearing Tongan monarch, King George Tupou V, a distant relative of Mr Mara's father.

The contrasting switches of fortune do not end there. Tonga, long an autocratic monarchy, took a giant stride towards democracy in November, when the country chose its first elected government. Meanwhile Fiji has lurched towards ever more authoritarian rule. Draconian public-emergency regulations have been in force, with few let-ups, since a military coup in December 2006.

Until he was suspended in October, Mr Mara was commander of Fiji's biggest regiment. He had been a loyal ally of the coup leader and military chief, Frank Bainimarama. Now at liberty in the Tongan capital, Nuku'alofa, Mr Mara denounces what he says is the baneful control over Commodore Bainimarama's government exerted by the attorney-general, Aiyaz Sayed-Khaiyum. He calls for regime change.

In a television address, Commodore Bainimarama, who doubles as prime minister, responded by condemning the Tongan navy's role in extracting Mr Mara from Fiji's territorial waters. Tonga's prime minister, Lord Tu'ivakano, says the courts will impartially consider a request for extradition. Yet for all his protestations that King George's hospitality does not imply a guarantee of immunity for Mr Mara, Tonga's judiciary remains answerable first and foremost to the king, not the elected government. It also happens that Tonga's chief justice, Michael Scott, a former Fiji high-court judge and himself a refugee from Fiji's coup, is an arch-opponent of Fiji's chief justice, Anthony Gates, controversially appointed in the wake of the Bainimarama takeover. A bitter feud between these two British-born judges was a lively subplot of events leading to the 2006 coup. Justice Scott will presumably take a dim view of the impartiality of Fiji's courts.

The suspension of Mr Mara and the former land forces commander in October came because of allegations of a planned counter-coup. Both officers were brought before the courts earlier this month, and charged with incitement to mutiny.

Mr Mara's flight from Fiji is a further sign of the growing breach between Commodore Bainimarama and the Mara dynasty. Ratu Mara died in 2004, but his family played a critical role in backing the 2006 coup. Mr Mara's brother-in-law is the current president, Ratu Epeli Nailatikau. Another brother-in-law resigned as defence minister in November after a quarrel with Commodore Bainimarama over arbitrary taxes imposed on a bottler of mineral water. After Mr Mara's flight, New Zealand's foreign minister suggested that "there is a lot to play out yet." Rumours in Suva, Fiji's capital, are swirling. Though some claim that the president is plucking up courage to remove the prime minister, Commodore Bainimarama is more likely eventually to usurp the position of the president.

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Myanmar's refugees

Bordering on despair

As Myanmar's isolation eases, Karen who fled worry they may be forced to return



SLOWLY Myanmar's isolation is fading. In November the regime held a general election, admittedly heavily circumscribed but the first in two decades. It then released the opposition leader and Nobel laureate, Aung San Suu Kyi. A formal transfer from military to civilian rule took place last month. No one doubts that the soldiers are still in charge. But more countries are loosening policies designed to shackle the regime. The European Union has relaxed some sanctions. America, which has appointed a special envoy to Myanmar, wants to engage. The UN's point man on Myanmar has just paid a rare four-day visit to the country. And now the ten-member Association of South-East Asian Nations (ASEAN) says it may give Myanmar the ASEAN chair for the first time in 2014-assuming "steady progress and political developments" continue on their present course.

The progress may yet prove a chimera. At the moment, though, it is beginning to worry some of the chief victims of decades of military repression: the 140,000 or so refugees who huddle just inside Thailand's border with Myanmar. These people, mainly from the Karen ethnic group, have sought sanctuary in Thailand for years. They are victims of a civil war between the Karen and the government that goes back to Burma's independence from Britain in 1948. The new era of official *glasnost* towards the regime leaves Karen in the camps feeling vulnerable-and the NGOs who look after them are increasingly concerned about their future.

The refugee camps were first set up in 1984; there are now nine of them, settlements of bamboo-built houses behind barbed wire spread out not far from the border town of Mae Sot. They are rife with boredom and crime.

Thai officials have been making noises recently about how it is time to close the camps. One provincial governor proposes a programme to get people to return voluntarily. To a degree, he and other officials are merely parroting longstanding Thai objections to the Karen refugees. Now, with a thaw in the world's relations with Myanmar, their proddings will carry more weight.

Yet nobody who works in eastern Myanmar, where most of the refugees would have to go back to, believes that the conditions remotely exist for their safe return. Indeed, the region gives the lie to the notion that the country really is making ASEAN's "steady progress" towards the sunny uplands of democracy and peace.

For a start, the low-level guerrilla war that has rumbled on between small groups of armed Karen and the Myanmar army has if anything got nastier since the election. The Thailand Burma Border Consortium, the main NGO looking after the refugees, estimates that conflict has made a further 70,000 people homeless in Kayin (formerly Karen) state in the past year, with 113 villages cleared. Often, the army orders villagers off their land to allow for mining, logging and other resource exploitation. In all, Burmese who have been internally displaced are reckoned to number over 500,000. In the past few weeks hundreds more have been fleeing over the border.

One awful consequence of the long conflict has been a proliferation of landmines, frequently maiming villagers. A much bigger killer is malaria, accounting for about a quarter of all deaths in eastern Myanmar. Diarrhoea is also lethal. The region has some of the world's ghastliest health statistics, much worse even than other parts of Myanmar and more comparable to countries like Sierra Leone and Niger. Maternal mortality is 721 per 100,000 compared with 240 in the rest of Myanmar-and just 48 in Thailand. Although refugees get reasonable care in the camps, in Myanmar the government spends only about 1.8% of total outgoings on health.

Under these conditions, few refugees want to return voluntarily. In recent years a resettlement programme to other countries, notably America, has been a great success. About 70,000 refugees have found new homes abroad. Yet it has barely dented the numbers in the camps, where girls often become mothers in their early teens. Most refugees will just have to sit tight, hoping they won't have to return until real change comes to Myanmar.

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Banyan

In a league of its own

The thugs ruling North Korea lie and cheat for a living. But they can hardly be shunned



SOME governments are worse than others. And then there's North Korea's. Not only does it run the country as a vast gulag. Not only has it so mismanaged its economy that probably millions do not have enough to eat. It also spreads mischief internationally. North Korea has not so much a foreign policy, more a criminal record. It covers terrorist mass-murder, nuclear proliferation, large-scale kidnapping, arms- and drug-smuggling, counterfeiting and even shoplifting. It seems lunatic to think the outside world can do serious business with such a regime. Yet it has no choice, for two reasons: North Korea is a nuclear menace; and some of its people risk starvation.

In recent days, fresh evidence has emerged of North Korea's criminality. China has blocked publication of a report on North Korea's proliferation activities for the UN Security Council. But it has leaked anyway. It accuses North Korea of the transfer of "prohibited ballistic-missile related items" to Iran on regular scheduled flights. Despite a supposedly rigorous international regime designed to prevent this kind of traffic, North Korea is plausibly accused of carrying it on. It has precious few other sources of revenue; and risking yet further sanctions probably seems a gamble worth taking.

North Korea has also just been caught busting some other UN sanctions, including the arms embargo imposed in December 2009 on Eritrea. A ship carrying $15m-worth of rockets, surface-to-air missiles and explosives recently intercepted in the Indian Ocean was on its way to Eritrea from North Korea.

Unusually, North Korea did, in 2002, admit its past guilt in one sort of heinous crime: the abduction of 13 Japanese citizens to teach North Korea's spies Japanese and help them assume false identities. The Committee for Human Rights in North Korea, a lobby group in Washington, DC, claims that the total number stranded in North Korea is huge: 180,000. The astonishing figure includes 83,000 South Koreans captured during the Korean war of 1950-53, and 93,000 ethnic-Korean residents of Japan who ended up in North Korea, unable to leave. But it also covers nearly 4,000 more kidnapped South Koreans, mostly fishermen.

This is also the regime that ordered the bombing of a South Korean civilian airliner in 1987, killing 115 people. In 1983 its agents bombed a high-level South Korean delegation visiting Rangoon in Burma (now Yangon in Myanmar), killing 17 South Korean cabinet ministers and four Burmese. Last year's presumed attack on the South Korean naval vessel, the *Cheonan*, in March, killing 46 sailors and the artillery barrage on civilians living on the island of Yeonpyeong in November were only the latest in a string of lawless acts of aggression.

So it must be debatable whether there is any point in "engaging" the North Korean government. The North insists on punctilious observation by the other side of the small print of any agreement, yet will do whatever it can to flout its own obligations. Or, when these prove too onerous or too difficult to cheat its way around, it kicks over the negotiating table and storms out. The huge diplomatic effort invested in restarting the "six-party" talks on North Korea's nuclear programme, stalled for nearly 18 months now, seems futile. Watching today's campaign against Libya's Colonel Muammar Qaddafi, who earned kudos and forgiveness in 2003 for forsaking nefarious nuclear ambitions, must have made Kim Jong Il and his sidekicks even more determined to cling on to-and enhance-their putative nuclear deterrent.

Yet shunning North Korea entirely, on the ground that it keeps on reselling the same horse and never delivers it ready to ride, is not really an option. No one wants to contemplate military intervention, and talks are the only alternative. Moreover, the evidence of the past is mixed. The seven years following the signature of a "framework agreement" with America in 1994 did not see an end to North Korean illicit activity. But, as Alexander Vorontsov, a Russian scholar, has argued, it was "the most successful period of strict international monitoring of North Korea's nuclear programme".

This week Stephen Bosworth, America's point man on North Korea, was in Seoul, the latest leg in a dogged mission to revive the six-party process. The sticking-point is South Korea's understandable demand for an admission of guilt and an apology for last year's attacks. Eventually, it will have to be overcome.

Of faith and food

That demand colours the debate over whether North Korea should be granted food aid. At present, the North receives virtually no food aid apart from an unknown amount from China. But, conscious of the famine that devastated North Korea in the 1990s, when more than 1m died, the UN's World Food Programme (WFP) has sounded the alarm. It wants to help feed 6.1m vulnerable people. Donors have balked, fearing that North Korea is deliberately exaggerating the risks, or hopes to use starvation to win diplomatic concessions. If food is given, the worry is that it will go first to the army, or even be hoarded for a bumper celebration next year of the 100th anniversary of the birth of Mr Kim's late father, Kim Il Sung.

Monitoring of aid distribution will always be "imperfect", as Stephan Haggard and Marcus Noland, two American scholars, have noted. But even if the WFP has been misled into giving an inflated estimate of the dangers, "food aid may nonetheless be warranted." The evidence is that some North Koreans do indeed risk starving. Their government is perfectly capable of using starvation as a bargaining chip. But neither that, nor the likelihood that some food aid would be stolen, are excuses for giving nothing. They are reasons to try to negotiate decent monitoring arrangements, in full knowledge, as Mr Haggard and Mr Noland put it with scholarly understatement, that "good faith on the part of North Korea can never be assumed."

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Correction: NukeBots

The pictured robot in our May 7th story on robots being used to deal with Japan's nuclear disaster ("NukeBots") was neither used in Japan nor a PackBot, as claimed in the caption. Our apologies.

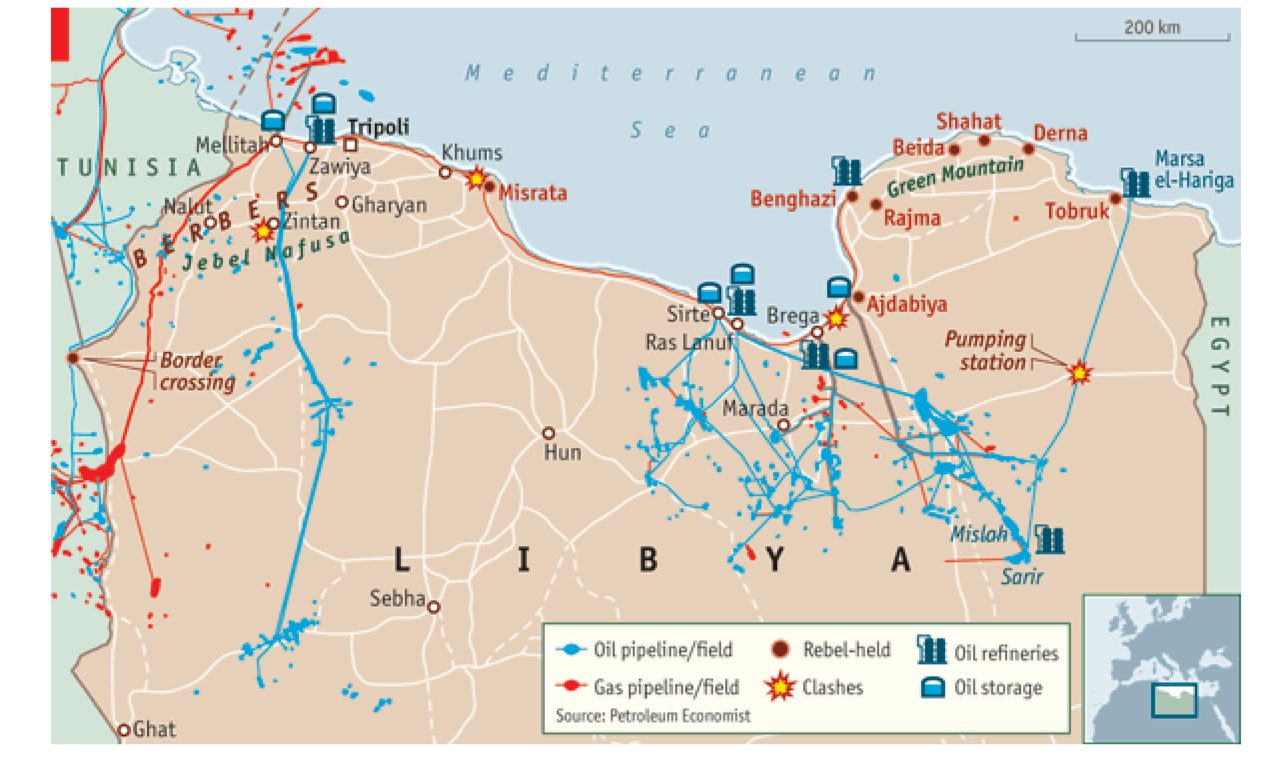
Libya

The colonel feels the squeeze

From all sides-military, diplomatic and economic-the noose is tightening around Muammar Qaddafi



IT HAS been a rotten week for the dictator. The city of Misrata, the country's third biggest, under siege for the past two months, has been secured by the rebels, along with its airport and port. Colonel Muammar Qaddafi's command-and-control centres are being systematically pulverised by NATO missiles. Libya's rebels are again poised to advance westwards towards Brega, after holding back to let NATO hammer the colonel's forces in and around it (see map). The prosecutor of the International Criminal Court at The Hague has issued a warrant for the colonel, his son, Saif al-Islam Qaddafi, and brother-in-law, Abdullah al-Senussi, his intelligence chief, to be tried for war crimes. One of the colonel's key ministers, Shokri Ghanem, a former prime minister who has been in charge of Libya's oil since 2006, seems to have defected.



Colonel Qaddafi's forces are running increasingly short of fuel. The people of Tripoli, his embattled capital, are short of just about everything, including food. The rebels in the east, based in Benghazi, are managing to import their basic requirements-and are getting diplomatically, politically and militarily better organised. The Qaddafi regime may hold out for a while yet, but time is not on its side. It is possible that it may implode.

On the military front, the rebels have reined in the young men who had at first been recklessly rushing up and down the coastal road to virtually no effect. A clear line of command has at last been laid down, with Colonel Qaddafi's former interior minister, Abdel Fatah Younis, as commander-in-chief and General Khalifa Haftar, who previously claimed the top spot on his return from many years in the United States, politely sidelined. A civilian, Jalal el-Digheily, has been appointed defence minister in the National Transitional Council (NTC), a fledgling government.

NATO says that co-ordination with the rebels has also improved, enabling targets to be hit with increasing accuracy. Colonel Qaddafi's forces are also coming under increasing pressure in the Nafusa mountains, a Berber-populated area to the south-west of Tripoli; rebels now control the main nearby crossing-point to Tunisia, though the Libyan regime still holds the coastal one. Though some members of the Western coalition against Colonel Qaddafi have qualms, the British in particular are stretching the definition of UN Security Council resolution 1973, which lets the coalition take "all necessary measures" to protect civilians, to include any target, including infrastructure as well as command-and-control points, that could be of value to the regime in its attacks on rebel-held towns (see article).

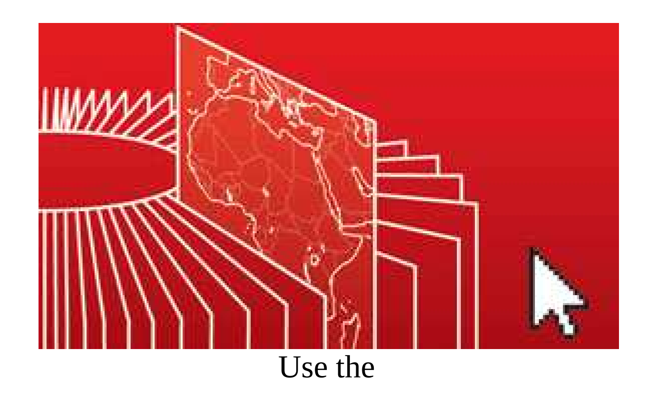
On the political front, the rebels have tidied themselves up too. Mustafa Abdel Jalil, a former justice minister under Colonel Qaddafi, is proving a consensual chairman of the NTC, while Mahmoud Jibril, who ran the colonel's economic development board until he defected and has a doctorate from the University of Pittsburgh, is in effect the prime minister heading an "executive team". He and his closest ally and deputy, Ali Essawi, who also held senior economic posts under the colonel, have forged close ties with several Gulf states, especially Qatar, the United Arab Emirates and Kuwait. Ali Tarhouni, a former professor at the University of Washington in Seattle, is handling the oil portfolio with aplomb. There are inevitable mutterings that the emerging administration, which stresses its transitional nature, lacks accountability. But foreigners in Benghazi say it has begun to function a lot better.

The NTC is keen not to appear to represent only the east of the country, so it has expanded to embrace a wide geographical spectrum, with as many members from Tripoli as from Benghazi. Though some members have links to the Muslim Brothers, the prevailing flavour is secular. All members fiercely oppose the notion of a de facto partition between east and west.

The tribal conundrum

The colonel's claim to hold the loyalty of most of Libya's many tribes is debatable, as is the influence of tribal leaders in determining the outcome of national politics. Most experts on Libya say that tribal allegiance is socially important but not

a clinching factor in wielding power in the national arena, though Colonel Qaddafi has lavished largesse in certain areas, particularly in his home town of Sirte and in the south around Sebha. Some say he could make a last stand in either place.



Use the

The NTC's biggest and most immediate need is cash. So far, thanks partly to the generosity of Kuwait and Qatar, it has paid civil servants their monthly salary and subsidised imports of basic food. Though it has yet to sell oil abroad, the NTC has better access to fuel supplies than has the colonel (see article).

Talk of a ceasefire and a gracious exit for Colonel Qaddafi has gained some currency outside the British- and French-led coalition but not within the NTC. Ceasefires hitherto declared by the colonel have so far failed to take effect. The ICC warrant will make it harder for him to flee. Some supporters of the NTC hope he will eventually be put on trial after his regime collapses from within.

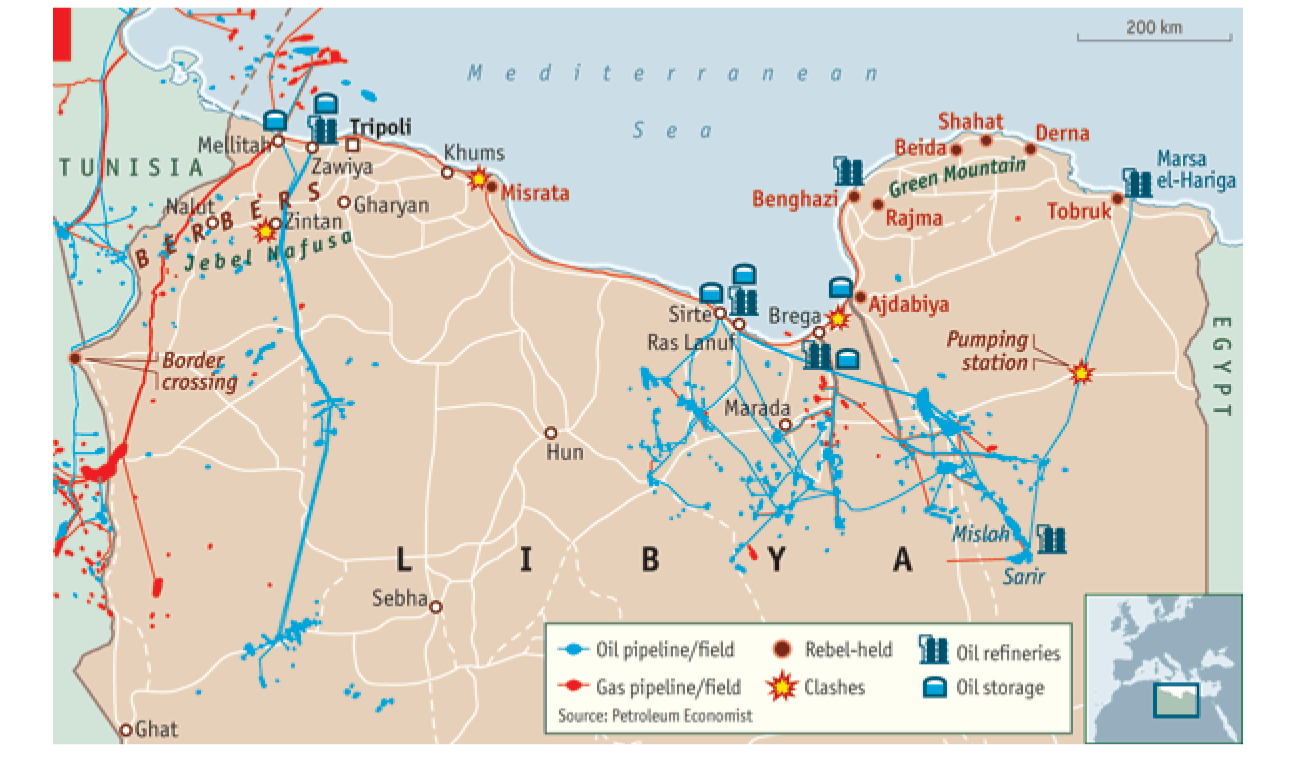
A further hope is that a transition to elections and a new government will be overseen by the UN, whose envoy to Libya, Abdul Ilah al-Khatib, a former foreign minister of Jordan, stands ready to mediate. So far, however, it seems more likely that the colonel will choose to go down fighting.

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Libya's disputed oil

Better for the rebels

Both sides are failing to pump or sell oil, but the rebels are in better shape

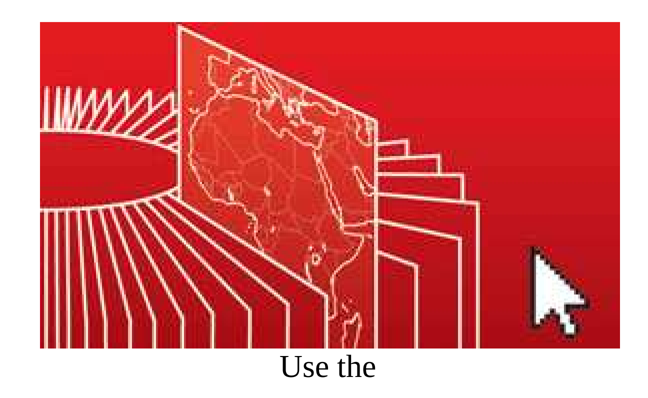


SOON after mass protests against Colonel Muammar Qaddafi took off, he sought to make sure he would either keep control of the country's oil or prevent the rebels from having it. Once they had taken swathes of territory that included many of Libya's oilfields, he set about sabotaging them-and hit the pipelines taking the oil to refineries and ports from which they could be sold. The colonel has also tried to prevent the rebels' fledgling administration from selling the oil on its own account.

He has had mixed success. As the rebels advanced along the coastal road between Brega and Ras Lanuf, sites of two big refineries, the towns' export infrastructure was knocked out and the country's gas network was cut in half. In April loyalist troops drove hundreds of kilometres across the desert to attack oil installations above the huge Sarir and Mislah oilfields, about 500km (311 miles) south of Benghazi, and destroyed a booster station half way up the line that pumped oil to the port of Marsa el-Hariga, next to Tobruk.

That blocked off about 300,000 barrels of oil a day (b/d) the rebels hoped would give them a vital and steady source of income. To mend the station, they need spare parts from outside Libya, but foreign outfits are wary of coming back. Until those facilities are repaired, the rebels cannot export any oil from the area they control. Their only sale was on April 6th when a Swiss-based trading house, Vitol, loaded 1m barrels at Marsa el-Hariga. The deal earned them about $120m, paid into an account in Qatar, where the state petroleum company has agreed to market the east's oil.

In the areas still run by Colonel Qaddafi, which accounted for about three-quarters of Libya's total pre-war output of 1.6m b/d, the oil infrastructure has suffered less damage but has been hit by the departure of foreigners. In its latest estimate, the International Energy Agency puts production at 200,000 b/d-but all output has probably ceased. A rebel says the regime has 3.6m barrels of oil left, sitting in storage tanks in Ras Lanuf, Sirte and Mellitah.


Use the

The colonel's oil men have been searching for traders willing to buy 600,000 barrels of this stored oil; a Lebanon-based trader may be ready to do a deal. But European Union sanctions ban transactions with various Libyans and companies, including the National Oil Company. So far the General National Maritime Transport Company (GNMTC), the state-run shipping firm run by one of the colonel's sons, Hannibal, has not faced sanctions, though Britain is keen to include it in the

ban. American sanctions bar all transactions with Libya, though the American Office of Foreign Assets Control is planning to exempt those conducted by the rebels' Transitional National Council. Still, dodgy traders are working on elaborate ways to buy Libya's highly prized light, sweet, paraffin-rich crude, including tanker-to-tanker loading in international waters and passing money through offshore companies into accounts belonging ultimately to the GNMTC or other regime loyalists.

Both sides badly need fuel to run their war machines. On this score, the rebels are in better shape. Qatar Petroleum and small refineries in Tobruk and Benghazi are meeting local demand of about 18,000 b/d. In March the rebels also seized a Greek-flagged ship carrying fuel bound for the western side and unloaded its cargo. Vitol, in co-operation with Qatar Petroleum, has shipped at least 11 cargoes of fuel to the rebels, landing it at Tobruk.

In the area Colonel Qaddafi controls, the Zawiya refinery near Tripoli may still process some oil, though much less than the plant's capacity of 120,000 b/d. Lorries laden with diesel and gasoline have been passing through the coastal border with Tunisia, though rebel sympathisers in Tunisia may now be stopping them. The west needs twice as much fuel as the east. Shortages are increasing fast. Cars in Tripoli, the capital, sometimes queue for days to fill their tanks. Petrol there fetches up to seven Libyan dinars ($5.85) a litre, against 13 cents a litre in Benghazi.

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Syria and the region

What happens if Assad goes?

Governments opposed to Syria's still fear his downfall



A WEATHERED Middle East truism holds that, while there can be no all-out Arab-Israeli war without Egypt, there can be no long-term peace without Syria. Poor and militarily feeble, Syria has used its location as a geopolitical hub and its nimble, ruthless politics to make itself indispensable to the regional order. But as a two-month-old uprising against the regime of President Bashar Assad refuses to be suppressed, Syria risks losing that position as a linchpin, perhaps enough to alter the Middle East's balance of power.

"When something has been in the icebox for 40 years, there is no telling how it will look when it melts," says a human-rights activist who covers Syria, referring to the decades of dictatorship under Mr Assad and his father, Hafez, an air-force commander who seized power in 1970. The prospect of prolonged unrest, outright anarchy or sudden regime change confronts all Syria's neighbours, as well as allies such as Iran, Lebanon's Shia party-cum-militia, Hizbullah, and various Palestinian factions, including the Islamist movement, Hamas, with a conundrum.

Most of them would rather Mr Assad stayed. Even the Israelis, despite seeing Syria as their most diehard Arab foe, know that the Assads have kept their mutual border quiet. Facing restlessness from his own people, Jordan's King Abdullah does not want a democratic uprising to succeed next door. Iraq, now shakily ruled by its Shia majority after ugly years of sectarian war, fears what may happen if Syria's Sunni majority, three-quarters of the population, seized power after decades of domination by Mr Assad's Alawites, an offshoot of Shia Islam numbering a tenth of Syria's people. Turkey, which has cultivated close ties to Mr Assad as part of its "zero problems" policy, also fears chaos on its longest border and the empowerment of Syria's long-oppressed Kurdish minority.

Polarised as always, the neighbouring Lebanese differ starkly over the predicament faced by Syria, where the regime has long exercised undue influence on Lebanon's own messy sectarian politics. Yet even Mr Assad's keenest detractors worry that, should he fall, his powerful and well-armed Lebanese allies may panic. Hizbullah, seeing its physical link to its Iranian mother-ship threatened, could drop its pretences that it respects Lebanese democracy, in which it has played a largely behind-the-scenes role. "Hizbullah will not take this lying down," warns a politics professor in Beirut, contemplating the Assads' possible downfall. "They will make a coup and take over the system."

But even among his allies the brutal tactics used by Mr Assad, including mass arrests and the deployment of tanks, artillery and snipers against unarmed crowds, have muted support for his regime. The ineptitude of Syria's state-controlled media, in the face of a barrage of grisly imagery and moving verbal testimony detailing the regime's cruelty, has made it hard to sustain his official narrative. The Assads have long drawn legitimacy from their dogged support of Palestinian rights. Yet the sight of Palestinian protesters storming border fences along the Israeli-occupied Golan Heights, as they did on May 15th (see article), was widely dismissed in the Arab press as a ploy to divert attention from Syria's own troubles. For the Israelis it suggested that a flailing Assad regime might be worse for them than an untested new one.

On the ground in Syria the protesters' failure so far to disrupt ordinary life much in the two biggest cities, Damascus and Aleppo, helps the regime to portray the unrest as small and scattered incidents provoked by foreign agitators. Syrian officials say government forces have won the upper hand in the peripheral zones where rebellion has spread, insisting it is now a matter of time before the protests fade. A nationwide strike called by the opposition on May 18th was widely ignored.

Most commentators think the regime is in no imminent danger of collapse. In Egypt and Tunisia more professional armies refused to open fire to save their beleaguered presidents after the collapse of the police. But Syria's army is designed to protect the regime. Key brigades, better equipped and trained than the rest of the army, are commanded by Assad clansmen or trusted loyalists. Few doubt their will to fight to the end.

Syria's opposition is diffuse and still leaderless. Over the years the regime has co-opted much of the urban Sunni middle class and convinced other groups, such as the Christian minority of some 10%, that without Mr Assad Syria may descend into civil war in the manner of Iraq or Lebanon.

Yet with 800 or so dead and dozens of towns and villages under virtual siege by the army, Syria's revolt may have reached a self-sustaining momentum, albeit not at a level likely to topple the state soon. Sectarian hatred, initially played up by the regime to rally support from other minorities, is becoming a reality. It is not a coincidence that the most persistent revolts and the worst retribution have occurred in Sunni-dominated areas. Sporadic attacks on security forces, of whom the government says 120 have been killed, seem to have specifically targeted Alawite officers.

"We're in for at least six months more of this," reckons a Damascus businessman who has prospered under Mr Assad's rule. "After that we'll have a weakened Bashar limping along or the generals will decide that the Assads are a liability."

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Israel and Palestine

Spring for Arabs, winter for Jews

Palestinian incursions both rattle and bolster Israel's government



FOR months the Arab spring seemed to have passed the Palestinians by. But it caught up with them over the weekend of May 14th-15th, when they demonstrated en masse-and more daringly than usual-to commemorate the day the Palestinians call the *naqba*, or catastrophe, when Israel was created 63 years ago. Abetted by Syria's government in Damascus which was seeking a diversion from its own troubles, hundreds of unarmed Palestinian protesters (pictured) breached Israel's defences in the Golan Heights, something no Arab army has managed to do for 38 years. Four were killed. Throngs pushed into an Israeli-controlled Druze town, Majdal Shams, raising Palestinian and Syrian flags in the square and hailing the daring move as a first step to "going home".

Many of them demonstrated elsewhere, too. Thousands from their grim refugee camps in Lebanon converged on their southern border with Israel. In the worst violence there since the war of 2006 between Israel and the Lebanese party-cum-militia, Hizbullah, at least ten Palestinians were killed, amid Israeli claims that some of the victims had been shot by Lebanese soldiers trying to corral them. Thousands of Palestinians also massed across the Palestinian territories, including Ramallah, the West Bank capital, Nablus and Hebron. Hundreds converged on the crossing-point into Israel between Ramallah and Jerusalem at Qalandia. In Gaza, too, hundreds of Palestinians gathered near Israel's concrete fortifications which pen them in. Some threw stones. A protester was shot dead.

Despite such losses, these events may have raised the Palestinians' confidence in their ability to use mass action effectively, seeing that diplomacy and violence have so far failed. Next month pro-Palestinian campaigners may again try to breach Israel's naval blockade of Gaza in a ferry, a year after Israeli commandos killed nine Turkish activists seeking to reach the coastal territory in a flotilla. And the Palestinians now seem bent on winning direct recognition for their state at a vote in the UN General Assembly in September.

But that does not mean that the Arab spring has reached Palestine. Funerals for the weekend's victims passed without fanfare. Talk of a third *intifada* (uprising) still seems premature. For Palestinian politicians, the task of fleshing out the reconciliation deal agreed on in principle last month between their two main factions, the Islamist Hamas and the more secular Fatah, rapidly returned to the fore. Neither party seemed keen to stoke further popular unrest that might threaten their rule.

As for Israel, Binyamin Netanyahu's government sounded rattled by the incursions. Yasser Arafat, the late Palestinian leader, often spoke of sending a million Palestinians to march on Jerusalem in an unarmed but unstoppable assertion of national independence. It seemed hollow talk then. But the surge of "people power" through nearby Arab countries has made it sound more plausible, especially with hundreds of Palestinians thronging into Majdal Shams. Many Israelis wonder nervously if the Palestinians will try to repeat the gesture in September if, as expected, the Palestinians win statehood at the UN.

Meanwhile the Israeli army, caught flat-footed both on the Golan Heights and on the border with Lebanon, will have to shore up the border, at least in the north, to make it physically impassable. It may lay down wider swathes of barbed wire, insert more landmines, and build higher barriers topped with electrical devices. And Israel may beef up the controversial barrier, erected in recent years to keep out suicide-bombers, which cuts into Palestinian territory delineated by the border of 1967. But the barrier is studded with crossing points which may yet draw bigger crowds of Palestinian demonstrators.

Mr Netanyahu was quick to seize on the incursions to reinforce his argument against the Palestinians' quest for statehood at the UN. They proved, he told his parliament on May 16th, that the Palestinians were out to extirpate the Jewish state from any part of Palestine. On May 19th he was to fly to Washington to rally American opinion to this viewpoint. He was to meet Barack Obama the next day and will address Congress the week after.

Mr Netanyahu says he is ready, in principle, to negotiate a two-state solution, but claims there is "no partner" on the other side, especially since the accord between Fatah, which rules the West Bank, and Hamas, which runs the Gaza Strip. He says he can negotiate with no Palestinian government that includes Hamas, since it will not recognise Israel or disavow violence.

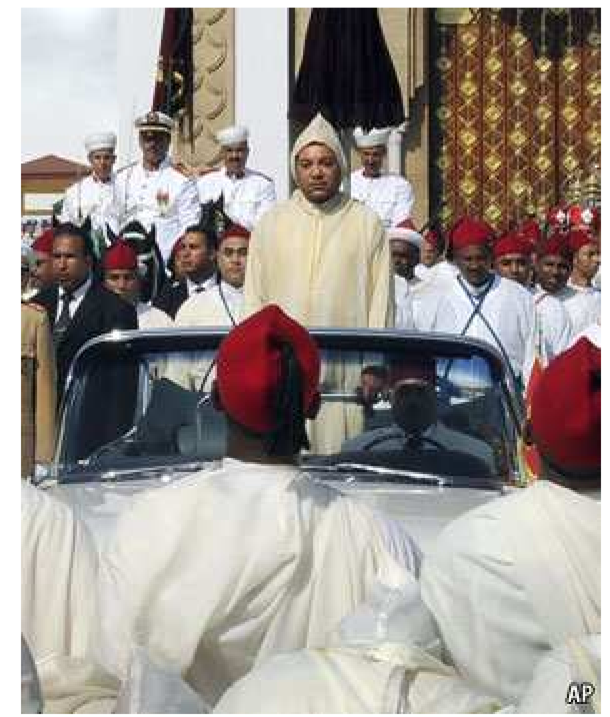
But opposition leaders in Israel say Mr Netanyahu himself is no partner for peace, since he refuses to accept that a Palestinian state would have to regain land lost in 1967, albeit with territorial swaps to let Israel absorb the largest Jewish settlement blocks, even though his predecessor, Ehud Olmert, offered this to the Fatah leader, Mahmoud Abbas, the Palestinians' current president. Moreover, Mr Netanyahu insists that an undivided Jerusalem must be Israel's capital, though Mr Olmert's predecessor, Ehud Barak, agreed in 2000 to divide the city's sovereignty between the states of Israel and Palestine. And Mr Netanyahu still refuses to stop building settlements in the West Bank, the main bit of a future Palestinian state. Despite all this, Mr Netanyahu is hoping that his friends in America will persuade Mr Obama that the fence-busting Palestinians are the chief impediment to peace.

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The Gulf Co-operation Council

A club fit for kings

A Gulf club is set to beef itself up



The Gulfies want to hug Morocco's hoodie

BUFFETED by the wind of democratic change but determined not be blown over by it, the Gulf Co-operation Council (GCC), consisting of Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates (UAE), has surprised the rest of the Arab world by declaring that it would accept a request by Jordan to join the club and would encourage Morocco to do the same.

The reaction, especially in Morocco, which had never asked to join, was one of bemused incomprehension. The government in Rabat was respectful but cool, noting Morocco's commitment to the Maghreb Arab Union. Jokes were traded on Twitter, with a #funnygcc hashtag, wondering how the different cultures of the Arab world's easternmost and westernmost people would get on. Moroccan women worried half in jest whether, as in Saudi Arabia, they would no longer be allowed to drive. The republic of Yemen, by contrast, has been asking in vain for membership since 1999.

Abdullatif al-Zayani, the GCC's secretary-general, a Bahraini who has been trying to mediate an end to the turmoil in Yemen, disclosed few details of the club's planned enlargement. But the aims were evident. For one thing, the GCC sees itself as a bulwark against Iran, which all the club's members, led by its most powerful, Saudi Arabia, view as a rising threat. Jordan's King Abdullah II was the first Arab leader to speak darkly, in 2004, of a "Shia crescent"; Morocco's King Muhammad VI cut off diplomatic relations with Tehran in 2009, accusing the Islamic Republic of trying to spread its sect of Islam in his stoutly Sunni kingdom. Aside from Oman, whose sultan follows Islam's Ibadi school, all GCC members are Sunni-ruled. Jordan and Morocco have also given security support to GCC countries. A Jordanian contingent joined the recent Saudi-led intervention to suppress Shia protesters in Bahrain, and Moroccans have long provided brains and brawn to the UAE's emirs.

There is an economic angle, too. Morocco and Jordan are relatively poor-and lack oil. The rich Gulf states have backed both with billions in aid. For Moroccans and Jordanians, many of whom work in the Gulf, the open borders and labour markets enjoyed by the GCC's current sextet, which plans a customs union by 2015, is another lure, though today's GCC members will not give the newcomers all the same privileges from the start.

Monarchical solidarity is, of course, the ultimate bond, at a time when the republican dynasties of Egypt, Libya, Syria and Tunisia have come unstuck or look shaky. A common joke these days is that the GCC should be renamed the "Gulf Counter-Revolutionary Club".

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South Africa's local elections

The ruling party is challenged

For the first time since apartheid ended, voters may give the ruling party a fright



ACROSS from Beauty's Hair Salon ("Dark and Lovely"), the residents of Diepkloof, a neat working-class district of Soweto, a sprawling black township outside Johannesburg, queued up patiently in autumn sunshine outside Dumezweni Primary School to vote in South Africa's third municipal poll since apartheid ended in 1994. For the first time since then, the all-powerful African National Congress (ANC) was challenged by an opposition party able to point to its own perky record in local government and contrast it with the ANC's fairly dismal one.

As counting continued on May 19th, preliminary results were hard to gauge. The opposition Democratic Alliance (DA), led by Helen Zille, a former Cape Town mayor and now premier of the Western Cape, seemed set to improve sharply on the 15% it won in the last local polls in 2006. The ANC's tally, though down from its previous 66%, was still expected to top 60%. Jacob Zuma's chances of serving a second term as the country's president would dip if it had done worse. Neither the Congress of the People (COPE), a splinter of the ANC, nor the once formidable Zulu-dominated Inkatha Freedom Party seemed sure to survive, as their share of the poll plummeted.

Ms Zille, a white former anti-apartheid campaigner and one-time journalist, fought a jovial and energetic campaign, shining a light on the DA's efforts to bring better services to cities such as Cape Town. Her party has also begun to win more votes across the racial divide. Though its supporters are still mainly white, a third of its 60 members of parliament are now black or coloured (mixed-race), as were many of its candidates in these local polls. It recently joined up with the Independent Democrats, led by Patricia de Lille, a coloured former trade unionist. She is set to take over as mayor of Cape Town, the country's biggest city, where for the first time the DA won a majority of the vote.

The ANC's campaign, by contrast, was lacklustre. In control of nearly all of the country's 284 municipal councils, it found itself on the defensive in the face of growing criticism of the party for corruption, nepotism and incompetence in local government. Though basic public services are in fact steadily improving, two-thirds of South Africans say they are unhappy with the standards in their particular community. In more than a third of municipalities, the leadership and financial management are considered so poor that the auditor-general has recommended government intervention. In one recent poll, almost one in two voters said he or she would not vote for the same party as in the 2009 general election-which generally meant the ANC.

In desperation, Mr Zuma and other ANC leaders began warning people that if they deserted the country's liberation party, "the ancestors" would turn against them and they would be dogged by bad luck until they died. A vote for the DA, they were told, was a vote for a white-supremacist party "hell-bent on treating black people as subhuman" and on bringing back apartheid. But a growing number of non-white South Africans are no longer willing to believe such fantasies. The ANC will still dominate at all levels of government. But the DA is snapping at its heels.

Africa's elephants

To cosset or to cull?

Elephants are poached in central and east Africa but proliferate in the south

THE elephant had been snared in the thick forest spilling down the slopes of Mount Kenya. She had struggled to break free, flattening vegetation, but the snare had cut deep. She died of thirst, in agony, one of seven being monitored with radio collars by Save the Elephants, a Kenya-based conservation group. Three of the other collared animals have also been killed in the past few months, their faces hacked off to get at the tusks.

The ivory may have been among the large shipment just uncovered at the main airport of Nairobi, Kenya's capital. The tusks of 58 elephants, worth $1.3m, were in metal boxes. The shipment was bound for Nigeria, purportedly from two embassies in Nairobi that do not exist. At the same time, in Vietnam, authorities found $600,000 of tusks hidden in a cargo of rubber from Tanzania. Thai customs last month spotted $3.3m-worth of tusks under a pile of frozen fish.

The quest for ivory charms in China and Vietnam makes elephant poaching lucrative in eastern and central Africa. Ivory fetches up to $1,200 a kilo in Asia, says the WWF, a wildlife lobby. That encourages middlemen. Many Chinese citizens in several African airports have been arrested this year for smuggling ivory. Detectives suspect many more get through with a few kilos and a bribe. Tree cover, armed groups, and open borders make elephants as vulnerable as ever. The herds of central Africa are being particularly hard hit. In Chad alone, at least 30 elephants are known to have been poached last month. Some conservationists think there is no future for a truly wild and unprotected elephant.

Yet, taken as a whole, African elephants have increased from a low of 500,000 in the 1980s to more than 600,000 today. The Swiss-based International Union for Conservation of Nature, an environmental lobby, which publishes a "red list" of the world's most endangered species, says elephants in southern Africa are increasing by 4% a year. Their fecundity is offsetting losses in central and west Africa. Indeed, the main threat in Botswana, southern Mozambique, parts of South Africa and Zimbabwe is arguably not poaching but overpopulation. Boffins are pondering birth control for elephants, including even vasectomies. There are calls for culling or allowing trophy hunting under rigorous controls. Southern African countries are keen to see the lifting of the worldwide ban on the ivory trade.

But east and central African countries and well-financed animal-rights groups fiercely oppose this. They say an earlier decision to let southern African countries sell some of their ivory stockpile caused poaching to soar elsewhere: those handling the ivory often provide false labels of origin. In the end, as the Chinese get richer, it is probably only China itself that can determine the fate of Africa's elephants. Earlier this month, two Chinese engineers were arrested in N'Djamena, Chad's capital, with eight pairs of tusks. After producing diplomatic passports, they were freed. The fate of the tusks is unknown. That of the elephants isn't.

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Europe's diverging economies

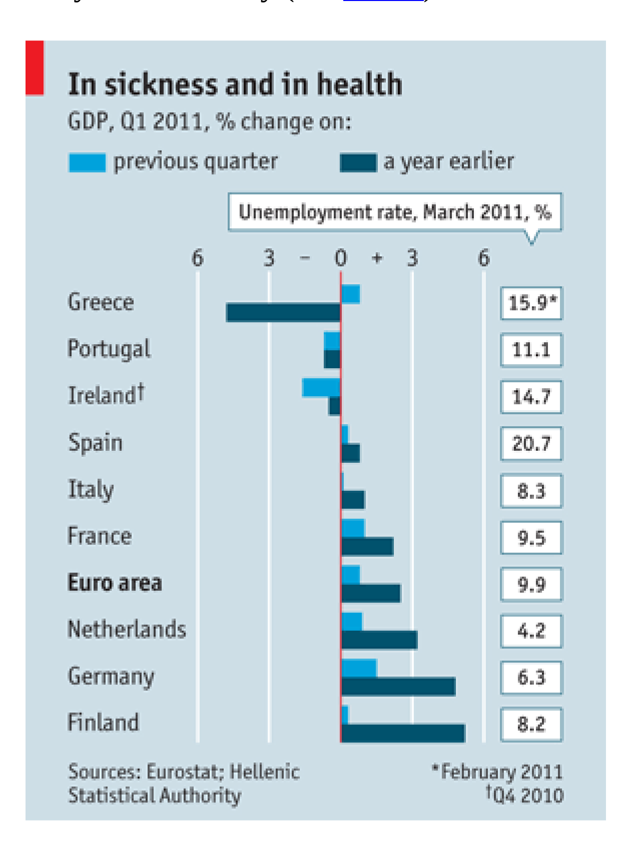
Northern lights, southern cross

The economic split within the euro area could damage its political cohesion



A TWO-SPEED Europe has historically been a political spectre, but it has now become an economic reality. It is happening within the euro area, the heartland of European integration. On the fringes of the single-currency zone Greece, Ireland and Portugal have become ensnared in a sovereign-debt crisis. But in its northern core, driven by the German powerhouse, economies are reviving and public finances are solid. Now many fear that the economic divide could turn into a political chasm.

European finance ministers did their best to strike a pose of business-as-usual at a meeting on May 16th that Dominique Strauss-Kahn, then the head of the IMF, had been due to attend before his arrest in New York. They agreed to designate Mario Draghi, the governor of Italy's central bank, as the successor to Jean-Claude Trichet at the helm of the European Central Bank (ECB) later this year. But business-as-usual also meant giving the go-ahead to a third bail-out, for Portugal, adding euro52 billion ($74 billion) to the euro26 billion already pledged by the IMF. And there was mounting concern that the first bail-out, to Greece a year ago, is in deepening trouble. Euro-area finance ministers acknowledged that a "soft" restructuring of its colossal public debt may be on the way (see article).



The economic distress of southern Europe was manifest in recently published GDP figures for the first three months of this year (see chart). Portugal slipped back into recession. Although Greece announced a surprise increase, this still left its output 4.8% lower than in early 2010; and it followed a more woeful performance late last year than previously thought.

The bigger Italian and Spanish economies managed to grow, but barely. Unemployment rates across most of southern Europe are desperately high. And Ireland, which has yet to report its output for early 2011 but suffered a sharp 1.6% contraction late last year, is sharing the southern gloom.

By contrast, the core of the euro area is basking in sunny economic revival. German output grew by a breathtaking 1.5% in the first three months of 2011 (6.1% on an annualised basis). The French economy, which had dawdled last year, got going too, expanding by 1% over the previous quarter. Since the pair make up almost half of euro-area GDP, this helped the single-currency zone put on a burst of speed in the first quarter, outpacing America and Britain, to grow by 0.8%. Output was 2.5% higher than in the same period in 2010.

Consistent with this healthy performance, the euro has been fairly strong, trading above $1.40. Renewed jitters about Greece have brought it down from a near-$1.50 peak in early May. But it is still higher than at the start of the year, helped by the fact that the ECB was the first big central bank among rich economies to start tightening, when it bumped up its main interest rate from 1% to 1.25% in April, with a further quarter-point increase likely this summer.



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Growth in the euro area for the rest of this year is likely to be less exuberant, says Julian Callow, an economist at Barclays Capital. Output in the first quarter was flattered by the bounce back from poor weather in late 2010. There are already signs that the German economy may be coming off the boil. Manufacturing orders fell in March. An economic-sentiment index published this week by ZEW, a think-tank, was buoyant, but expectations for six months' time are sagging.

Still, Germany looks set to lead a robust expansion in the northern part of the euro area. As these countries grow they will import more, helping the beleaguered southern economies by boosting their exports within the single-currency zone. Germany, which itself struggled in the early euro years, can now spread its better fortunes more widely, argues Holger Schmieding, an economist at Berenberg Bank.

Yet despite that fillip, the weak economies may continue to flounder. Many of Germany's new imports come from central rather than southern Europe. A strong euro makes it harder for the southern countries to boost their exports to countries outside the currency union-and Germany's success in keeping its unit labour costs down means the less competitive southerners have to run just to stay still. On top of all this, the higher interest rates that may now be needed in Germany will inflict another blow on the most vulnerable economies. Mortgages in southern Europe and Ireland are typically variable-rate, whereas fixed-rate housing finance prevails in Germany and France.

More important, the predicament of Greece, where public debt is now forecast by the European Commission to reach 158% of GDP by the end of the year, looks ever more intractable. There is also growing concern over the rescues of Ireland and Portugal. Both countries' debt burden will vault above 100% of GDP by the end of this year, according to the commission.

The longer the economic divergence within the euro area persists, the more profound its political consequences. Northern electorates are growing restive over the apparently endless bail-outs. A recent poll in Germany showed that only 20% thought the rescue of Greece was right; 47% said it was wrong. But the fallout may eventually be even greater in southern Europe and Ireland. These countries are already struggling to deal with the onerous austerity packages that are the price of their rescues. If they come to believe that the promise of eventual convergence in living standards with rich Europe has been dashed, for how much longer will they be willing to swallow their nasty medicine?

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The euro's problems

Tomorrow and tomorrow

The euro zone's finance ministers continue to act as if time is on their side

MARKETS are losing confidence in the European Union's ability to keep the single currency intact. They are also demanding higher returns to hold the debt of Greece and Ireland today than when they were bailed out by the EU last year. As finance ministers gathered in Brussels this week, they hardly even pretended to agree on how to deal with the endless problems of the euro zone.

For all that, they managed to break two taboos. The first is that you must always be polite to Greece. The ministers told their Greek colleague, George Papaconstantinou, that his reform programmes were badly off course. Greece's promise to sell euro50 billion ($71 billion) worth of state assets had not raised a single euro, they complained. Greece was told, bluntly and publicly, immediately to embark on a radical programme of privatisation. Ministers seemed to have taken to heart last year's headline in Germany's biggest tabloid, *Bild*: "Sell your islands, you bankrupt Greeks-and the Acropolis too!"

The second broken taboo is the notion that there can be no restructuring of government debt. Ministers are now talking openly about it, albeit in a "soft" form involving creditors voluntarily stretching out the maturities on their loans to Greece, rather than imposing losses on creditors. The European Commission and, particularly, the European Central Bank had been opposed even to this, for fear of unleashing financial chaos. Yet by the time the ministers emerged, after midnight, from their meeting, Jean-Claude Juncker, head of the euro group, confirmed that a soft restructuring was a prospect. He was backed by the commission, but leading ECB members were highly critical.

Politicians are starting to realise what the markets sniffed out long ago: on its current course Greece will not be able to pay its debts. Yet the European Commission and the ECB continue to argue that a big privatisation programme, more austerity and reforms, and another dose of EU help could see Greece through its problems. The trouble is, economic arguments ignore political realities. Such a plan would force Greece to endure prolonged pain to a degree that strains the imagination.

Among other things, the crisis has underscored the intertwining of public and private debt in Europe. Saving bust banks pushes losses on to states' balance sheets. Saving the states now risks pushing losses back on to the banks. But nobody knows how enfeebled the system really is. Some answers may emerge next month, after a second, supposedly more rigorous, round of "stress tests" for banks.

It is striking, though, that the scenarios for the tests do not fully include the outcome the markets are most concerned about: restructuring sovereign debt. Officials at the Bundesbank reckon Germany's banking and insurance systems can survive even a "hard" restructuring by Greece, Ireland and Portugal combined. Brave talk, but German ministers do not seem ready to test their officials' confidence.

A growing number of economists think restructuring now would be cheaper for Europe as a whole than giving more loans that may never be repaid. But politicians, particularly those facing elections in the coming years, will hope they can choose delay.

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The queen in Ireland

Irish, and British, eyes are smiling

Relations between two former antagonists are flourishing



IN 1171 Henry II was the first English monarch to cause trouble in Ireland. This week Elizabeth II became the first British monarch to visit since Irish independence in 1921. (Unlike her medieval predecessor, she had been invited.)

Strict security surrounded her visit, and few saw her in person: with bomb threats from dissident republicans, the police and army took few chances. Yet the trip celebrated warming relations that have weakened the men of violence. In 1998 the Good Friday agreement helped draw the curtain on three decades of conflict in Northern Ireland. In a subsequent referendum, Irish voters overwhelmingly renounced their country's constitutional claim to the north.

A big symbolic step was taken in 2007 when the British national anthem was played, to respectful silence among the crowd, at a rugby match between England and Ireland in Dublin's Croke Park stadium, scene of a massacre of Irish civilians by British auxiliaries in 1920. Now the queen's state visit marks a formal acknowledgment of a detoxified relationship that has started to flourish.

Helping set the ghosts of history to rest, the queen laid wreaths in memory of fighters for Irish independence and Irish soldiers who fought for Britain in the first world war. She toured Croke Park. But as David Cameron, the British prime minister, put it, the visit was "not so much about the closing of an old chapter but the opening of a new one". Links between the two countries are extremely strong. An estimated 6m British people have an Irish parent or grandparent. Ireland is Britain's fifth largest export market, accounting for more than Brazil, Russia, India and China combined.

Last November Britain offered Ireland a pound3.2 billion ($5 billion) loan, following the Irish bail-out by the European Union and the IMF. The move reflected Ireland's importance to Britain as a trading partner, while British banks were heavily exposed to the collapsed property market. Yet for many Irish, Britain's helpfulness contrasted favourably with the stance adopted by some of Ireland's euro-zone partners in pressing Ireland to accept a bail-out and to raise its corporate-tax rate. The caricature (which was never quite accurate) of the Irish as Europe-loving Brit-haters needs updating.

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Elections in Italy

A blow to Berlusconi

The prime minister's party struggles in local elections



Not exactly the Midas touch

ITALY'S prime minister, Silvio Berlusconi, took a drubbing in local elections on May 15th and 16th. And so did *berlusconismo*: his peculiarly personalised, aggressive and flamboyant way of going about things. But it is too early to say that he has been floored.

The big surprise came in Milan, where the left's candidate for mayor, Giuliano Pisapia, bested the outgoing mayor, Letizia Moratti (pictured) of Mr Berlusconi's People of Freedom (PdL) movement. The two will compete in a run-off on May 29th and 30th. Italy's business capital is politically significant in several respects. It is Mr Berlusconi's native city and the one from which he launched his political career. But it is also the place he is being tried on a string of charges, including paying an underage prostitute and abusing his official position by trying to cover up the alleged offence. His trial on those charges began in Milan last month.

As so often in the past, Mr Berlusconi succeeded in turning the ballot in Milan into a referendum on himself. He put himself at the top of the slate for places on the council and aimed a string of insults at the prosecutors and judges he claims are victimising him for political ends. This time, however, the ploy backfired.

Ms Moratti still has a chance to revive her fortunes. In the run-off she may pick up some support from centrist candidates who have been eliminated from the race. But the first-round results made it strikingly clear that she had paid dearly for adopting the roughhouse tactics favoured by the prime minister.

Mr Berlusconi applauded when Ms Moratti used her claws in the final stages of the campaign, publicly accusing her rival of having consorted with left-wing extremists. Mr Pisapia furiously denied her claim and announced plans to sue for slander. Earlier in the campaign, there was a row over the use of posters (disowned by Ms Moratti) that depicted Mr Berlusconi's eternal courtroom adversaries in the state-prosecution service as terrorists.

Milan was the biggest city at stake in a ballot in which some 13m people-more than a quarter of the Italian electorate-were eligible to vote. For Mr Berlusconi, the chief consequence of Ms Moratti's setback is its effect on his national coalition with the Northern League, many of whose members hold the prime minister responsible for their party's poor showing. The League's share of the vote in the election for places on the council slumped to below 10% (compared with almost 15 in Milan in last year's regional elections).

The League's leader, Umberto Bossi, was already seething at Mr Berlusconi's failure to consult him over joining the air offensive in Libya. He remains unlikely to pull out of the coalition as long as there is a chance of the government passing legislation to give the regions greater control over taxes, one of Mr Bossi's key aims. But relations between the two men are more strained than at any time since the previous general election, in 2008.

The right, then, has problems. But the results in Naples showed that the left does, too. A candidate for the small but vociferous (and intensely anti-Berlusconi) Italy of Principles party ran against the choice of Italy's biggest opposition group, the Democratic Party (PD), and won more votes.

It was another indication of a rising tide of personal aversion to Mr Berlusconi among Italians. Some, particularly on the left, were predicting it could carry Italy's prime minister out of politics for good. Maybe. But it is worth remembering that this is a tide that has risen in the past, only to ebb again.

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Russia's fake politics

Medvedev keeps mum

The president keeps everyone guessing at a much-anticipated press conference

WHEN leaders of large countries call news conferences, they usually have something to say. So when the Kremlin announced a few weeks ago that on May 18th Dmitry Medvedev, Russia's president, would hold his first press conference, on an undisclosed subject, the world's media took notice.

Inside Russia, bloggers and commentators speculated on Mr Medvedev's plans. Would he announce a presidential bid for 2012? Perhaps he might even sack Vladimir Putin, the prime minister, who many expect to return to the presidency next year. Purported leaks of Mr Medvedev's speech did the internet rounds. The timing added to the intrigue: a day before the press conference a Moscow court was due to hear the appeal of Mikhail Khodorkovsky, a jailed former tycoon. (In the event, the case was conveniently postponed for a week.)

In keeping with his modernising image, Mr Medvedev held his event at Moscow's Skolkovo School of Management, in an area decreed by the Kremlin to be Russia's Palo Alto. To highlight his openness to the media he picked questions without the aid of his press secretary. The atmosphere was relaxed and lighthearted. The menacing jokes Mr Putin used to make during his press conferences as president were absent. But so was anything of substance. After two hours, the theme of the event remained as elusive as it had been when the president started.

Asked if he would stand in next year's presidential election, Mr Medvedev laughed. "Ah, at last you have asked this question. I was hoping it would come first, but it only came fourth. My friends, I know that all of you, you here today, and many others too, are waiting to hear some interesting announcements," he said, generating mild expectation that he might actually answer the question. "But you have to realise that political life is not just a show. No... matter how appealing and tempting, a press conference of this kind is not the right occasion for such an announcement."

So what was the point of the exercise? Perhaps it was meant to liven up Russian political life before parliamentary elections in December and next year's presidential vote. In that case it had as much effect as applying revitalising body cream to a corpse. It demonstrated the degradation of Russian politics into a television-based virtual reality where tricks and political "technologies" trump ideas and policies.

As Kirill Rogov, a Russian commentator, said, the press conference again showed Mr Medvedev to be not an independent politician, but a "minder" selected by Mr Putin for his reliability. The failure of the event to generate news was news in itself. Mr Medvedev showed his willingness to continue to perform this role should Mr Putin choose to leave him in the Kremlin.

The prime minister, for his part, seems in no hurry to announce his decision on whether to return to the presidency. Instead he is focusing his attention on reviving the United Russia party, his stalling election machine. It was for this purpose that he recently launched a so-called All-Russian National Front. United Russia has lost much of its credibility, and has been dubbed a party of "crooks and thieves" by Alexei Navalny, a popular anti-corruption blogger and opposition figure. Polls suggest the party would struggle to win a simple majority in parliamentary elections.

None of these distractions will help Russia become a modern and effective state. At his press conference Mr Medvedev dodged a serious question about the future of Russia's troubled north Caucasus, suggesting it was mainly an economic problem rather than one of security, injustice and a crumbling state.

His differences with Mr Putin remain stylistic. It was too early to bring back regional elections (which he helped scrap in 2004), he said, even though most Russians want to choose their own governors and mayors. And he listed among his successes the war against Georgia in 2008. "It was very important for the country... for making it feel strong, whatever interpretation those events received in other countries." Mr Putin can be proud of his protege.

Strange Bremen

Freedom doesn't come cheap

The odd arrangements of a small northern state may not last much longer



BREMERHAVEN, they say, is the freest town in Germany. It is not the sort of freedom many may think of (vice is more visible on Hamburg's Reeperbahn). It is a financial and administrative thing, which makes this port at the mouth of the Weser River one of the odder spots in the republic. Normally, Bremerhaven (population 113,000) can be ignored, as can Bremen, a larger town 54km away. The pair form the state of Bremen, the tiniest of Germany's 16 *LÃ¤nder*. Yet its election on May 22nd will stir a flicker of national interest. Germans will ponder, briefly, what Bremen's weirdness says about the rest of the country.

The election results are unlikely to be startling. The Social Democratic Party is almost certain to maintain its 66-year hold on power and its coalition with the Green party. A bigger question is whether the Greens will push the Christian Democratic Union into third place, which would be a blow to Angela Merkel, the German chancellor and the party's national leader. The Free Democratic Party (FDP), her struggling coalition partner, could be pushed out of Bremen's legislature, the *Burgerschaft.*

Bremen's odd planet-moon configuration is a 19th-century legacy. In 1827, faced with a Weser that was silting up, Hanseatic Bremen bought the land for Bremerhaven from Hanover's king to maintain a link to the sea. After the second world war the Americans kept the cities as supply bases.

Relations between the two towns have barely grown cosier since Bremen's merchants decided that the menial residents of the place they had purchased smelt like fish. Bremerhaven has suffered blow after blow: fishing disappeared in the 1960s, then the rise of shipping containers pushed workers out of the docks. Shipbuilding expired in the 1980s; the American army pulled out in the 1990s. The town's jobless rate is 16.8%, one of the highest in west Germany. A section of its port is

legally part of Bremen, which rankles. Many Bremerhaveners think that Bremen treats the city like a colony, says Ulf Eversberg, the Greens' leader in the city council, which is also up for election.

But, as often happens below stairs, the underlings run the show. Uniquely in Germany, Bremerhaven has its own constitution, runs its own police and manages its own schools. Elsewhere these are matters for the *Land*. The city sends its own slate of politicians to the *Burgerschaft*, where they form a powerful lobby. This means fringe parties can win seats in the legislature without competing statewide for votes. (It may also save the FDP.) Most of all, Bremerhaven cannot be sanctioned by the state for its spending plans.

It has used this freedom to spectacular effect. The old port is lined with eye-catching attractions, including what looks like a space-faring inflatable raft (the "Climate House") and a museum dealing with European emigrants to America, many of whom set forth from Bremerhaven. The city has high hopes for offshore wind energy, especially after the German government's sudden decision to pull out of nuclear energy as soon as possible. It treated itself to a euro16m ($23m) arena for the Fischtown Pinguins, a second-tier ice-hockey team, and has built up a towering debt. "If Bremerhaven was one of many cities, it would never have got the same help," says Detlef Kolze, a local journalist.

The reins are soon to shorten, however. Bremen, like all *LÃ¤nder*, must eliminate its structural deficit by 2020 under the German constitution. Bremerhaven must help, in exchange for a share of euro300m a year of "consolidation aid". Bremen's fiscal freedom "will clearly shrink, and that goes for Bremerhaven as well," says Hermann Kuhn, the Greens' budget spokesman in the *Burgerschaft*.

Bremen cannot afford failure. Rich *LÃ¤nder* already grumble about their transfers to needy states, including euro444m to Bremen last year. Why should they subsidise Bremen's "cost of littleness", which they reckon (unfairly, says Mr Kuhn) is euro100m a year? If Bremen misses the zero-deficit target, outsiders will question its independence. Bremen will have to curb Bremerhaven's freedoms to preserve its own.

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Charlemagne

Decoding DSK

What his fall says about transatlantic differences in attitudes to sex, power and the law



"I DID warn him!" These were the words supposedly uttered by France's president, Nicolas Sarkozy, when he heard that Dominique Strauss-Kahn had been arrested in New York on charges of attempting to rape a hotel maid. When "DSK" moved to Washington, DC, in 2007 to take up his duties as the boss of the IMF, Mr Sarkozy is said to have told him to check his passions: he was going to a country that had come close to hounding Bill Clinton out of office for having an affair with a White House intern.

In matters of sex, as of war, Europeans are from Venus. They mock Americans' puritanism about the sex lives of public figures. For a politician to cheat on his wife in America is a sign of dishonesty. Witness the opprobrium heaped on Arnold Schwarzenegger over the new revelation that he had fathered a child out of wedlock. In much of Europe, affairs can be a badge of virility. That is the insinuation of an interview given by none other than Mr Strauss-Kahn's wife, Anne Sinclair. Asked in 2006 whether she minded her husband's reputation, she replied: "No, I'm rather proud of it! It's important for a politician to seduce. As long as he seduces me and I seduce him, that's enough for me."

Nowhere is the politician's entitlement to sex more tolerated than, perhaps, in Italy. For Silvio Berlusconi, the country's longest-serving prime minister in modern times, sexual appetite is a matter of pride, not of shame. He is on trial, charged with paying for sex with an underage prostitute. (He also faces a range of corruption charges.) But there are no handcuffs for Il Cavaliere. "I love life and I love women," he declares cheerily.

Americans (and, it is true, many Europeans) are mystified by Mr Berlusconi's ability to survive the tales of his lurid "bunga-bunga" parties. Europeans are bemused by the uptightness of American public life, in which a blow job in the White House can lead to the impeachment of a president. But the case of Mr Strauss-Kahn is about more than sex. Dig deeper and you uncover a number of telling differences in transatlantic attitudes.

One question is: how much privacy should public figures enjoy? American intrusiveness may seem distasteful to Europeans. For their part, Americans do not understand how prominent personalities in Britain can obtain "super-injunctions" preventing journalists from reporting some peccadillo or even the existence of the injunction.

European tolerance of cavorting politicians carries the risk of creating a culture of silence and immunity that too easily blurs the lines between a consensual affair, harassment and outright assault. Henry Kissinger may have thought that power is the ultimate aphrodisiac. But power can also be a means of extorting sexual and other favours. If state and media conspire to keep quiet about the debauchery of politicians, might it not be easier to hide other misdeeds, such as corruption?

When Mr Strauss-Kahn was up for the IMF job, Jean Quatremer, a correspondent for *Liberation*, a French newspaper, was one of the few voices expressing concern about his libertine ways. His attitude towards women, blogged Mr Quatremer, was "too insistent, often brushing close to harassment. A trait known to the media, but about which nobody speaks (we are in France)." Mr Quatremer warned that the IMF was infused with "Anglo-Saxon mores" and that France could not afford a scandal.

With hindsight it looked complacently eager to avoid one. In 2007 Tristane Banon, a young writer, gave a televised account of what she claimed was an attack on her by Mr Strauss-Kahn when she interviewed him for a book in 2002. The programme attracted no attention when first screened, in part because it appeared on an obscure cable channel. But it now makes for compelling viewing. DSK's name was bleeped out as Ms Banon described him to a table of dining companions as "a rutting chimpanzee" and recounted fighting him off on the floor. Later, she said, DSK would send her creepy texts asking: "Do I frighten you?" She thought about pressing charges but did not want to be known "until the end of my days as the girl who had had a problem with a politician". Ms Banon's account would not make her the first female journalist to be harassed by a powerful man. But what is intriguing about this tale is that Mr Strauss-Kahn's name did not leak, as it surely would have done in America or Britain.

Walk of shame

Perhaps inevitably, given the fame of Mr Strauss-Kahn and the anonymity of the chambermaid, more attention has been paid to the tribulations of the former IMF chief than to the plight of his alleged victim. Indeed, the images of Mr Strauss-Kahn in handcuffs during his "perp walk" are regarded by many in France as an assault on the defendant's dignity, part of a flawed system of justice that places too much emphasis on retribution at the expense of the rights of the accused.

In France parading suspects in public is banned. In Britain, once a defendant is charged, until a trial is concluded only court proceedings may be reported. The aim is to avoid prejudicing jurors. Justice in these countries tends to be a sober

affair, insulated as far as possible from external tumult. In America it is more theatrical, with lawyers fighting their case over the airwaves and cameras filming battles in the courtroom. To Americans this is all evidence of great openness.

Beyond such differences in legal cultures, one fact is inescapable. In America a modest African immigrant has obtained a swift response from the police to her complaint of sexual assault. Mr Strauss-Kahn's innocence or guilt will be determined in court. But New York's authorities have not shirked from arresting the head of one of the world's leading international bodies, nor from demanding that he be kept in jail on remand. It is worth asking: would this have happened in Paris or Rome?

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The profit motive

Where lucre is still filthy

Squeamishness about profitmaking is hampering the government's bid to reform the public services



THE profit motive is alive and well at the Circle hospital outside Bath, in south-west England. The hospital was designed by the architect Norman Foster, and is run by Circle Healthcare, a firm part-owned by its employees and set up by Ali Parsa, a former banker at Goldman Sachs, in 2004. It treats a mixture of National Health Service and private patients. Corridors are wide and gleaming, operating theatres newly equipped. Doctors and nurses have more say in management decisions than in many English hospitals.

Mr Parsa's mission is to provide clinical services to the NHS-while turning a profit. From this summer Circle Healthcare will also run Hichingbrooke hospital in Cambridgeshire, the first major hospital within the NHS system to be wholly managed by a private firm. Mr Parsa wants to expand the model-but fears a newly nervous mood in government about profitmaking in the public services.

Trade unionists and lobby groups are queuing up to denounce any expansion of the private sector's role in health care. Both parties in the coalition government seem sympathetic to their case. In the wake of his drubbing in the electoral-reform referendum on May 5th, Nick Clegg, the Liberal Democrat deputy prime minister, has played up to many Lib Dems' scepticism about private involvement in the NHS by calling for Monitor, the health regulator, to promote collaboration among providers rather than competition, as was originally envisaged in the government's stalled health reform.

Meanwhile David Cameron, the Conservative prime minister, spoke this week about bringing more private providers into the NHS, then listed the things they must not be allowed to do, such as "cherry-picking" easy-to-treat cases. Mr Parsa and others fear they will be left fighting for scraps-slivers of health care, where margins are tight and there is little room to expand.

Bottom of the class

The unravelling of the coalition's health plans has been accompanied by a broader unease about profitmaking in the public services. A white paper on public-service reform that Mr Cameron said would lead to a "range of providers competing to offer a better service" has been delayed. According to a leaked memo of their meeting, Francis Maude, the Cabinet Office enforcer, recently told John Cridland of the Confederation of British Industry that there was to be no "wholesale outsourcing" of public services.

The squeamishness is acute in education. Despite introducing "free schools" inspired by the Swedish system-funded by the state but run by parents' groups, charities and others-Michael Gove, the education secretary, has rebuffed suggestions that education companies should be able to make a profit from them, as firms can in Sweden. He insists that he has enough not-for-profit providers: "We don't need the profit motive," Mr Gove says flatly. (In welfare, at least, there are no such qualms. A new scheme, the Work Programme, offers payment by results to providers for placing the long-term unemployed in jobs and keeping them there.)

To some foreign observers, this reticence about private involvement looks odd. There is ample international evidence that competition among private providers yields better results. For example, a report last year by America's National Bureau of Economic Research found that increased competition in health care was correlated with improved financial and clinical outcomes; adding a rival hospital and instigating patient choice substantially increases the quality of management. As Nick Seddon, of the British think-tank Reform, points out, "It's a fallacy to think you can choke off the profit motive without losing momentum and innovation."

And the current debate somehow overlooks the fact that for-profit companies are already delivering many support services in health, education, prisons and other public services. Family doctors have been private operators since the foundation of the NHS in 1948. The profit motive has been making further steady advances in the state sector since Margaret Thatcher's outsourcing campaign in the 1980s. Tony Blair let privately owned treatment centres provide specialist services within the NHS. His wider reforms were restricted by internal battles in the Labour Party; all the same, a recent report from the London School of Economics found that introducing competition among NHS hospitals in 2006 helped to reduce patient deaths.

Yet somehow the tenor of debate in Britain is, and always has been, skewed, emphasising the damage that market reform might do to existing structures and downplaying potential advantages to users and taxpayers. As Jeremy Bentham, a 19th-century philosopher, noted, "Public opinion is but little favourable to the system of contracts. The savings which result to the state are forgotten whilst the profits...are recollected and exaggerated." Many Britons fail to distinguish between how a service is run and how it is funded, assuming that private provision must also mean private rather than state financing.

Perhaps because, in some cases, the state never had a monopoly over public services, the issue is viewed differently elsewhere. Britain is unusual among rich democracies not in how much private involvement there is in its public services, but how little. Only 4% of acute-care beds are provided by private companies. In Germany, the proportion of hospitals run for profit (32%) overtook the number of publicly run ones (31%) two years ago (charitable and voluntary organisations account for the rest). The Spanish region of Valencia allows for-profit firms to run over 20% of its health-care services, with the sort of long-term deal British providers hanker for. New European democracies are experimenting with similar public-private mixes. Two-fifths of Slovak hospital provision is delivered by private operators.

At heart, the coalition remains pro-reform. It wants to change the way health, education and welfare work. But it is in danger of being paralysed by fear-of "retoxifying" the Tories' image on the NHS, as well as of mutiny among Lib Dems. The real risk may not be that the profit motive will wreck the public services, but that compromises will neuter the reforms. In other words, the coalition's bid to overhaul the public sector might end up looking as fragmented as Mr Blair's.

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Rolls-Royce and corporate cash

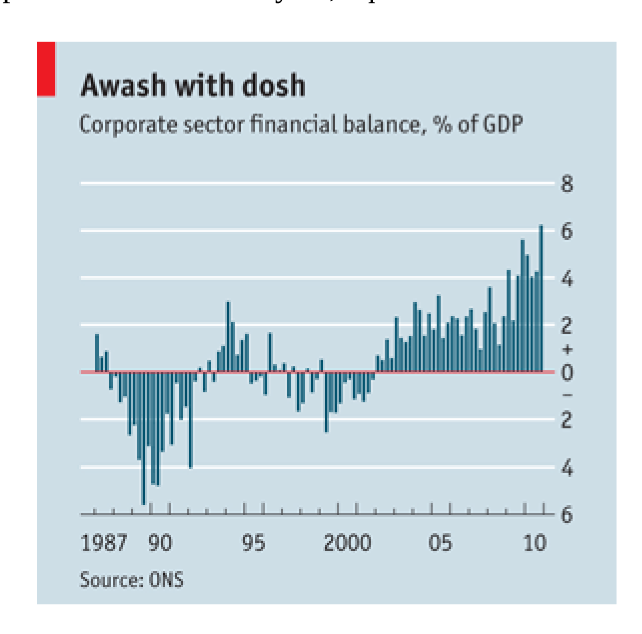
Splashing out

A deal that suggests that some British firms might be set to use their spare cash-but not only at home



IN HIS budget speech two months ago, George Osborne, the chancellor of the exchequer, spoke of his wish for an economy based on exports and investment, expressing distaste for credit-fuelled spending. Mr Osborne, it seems, wants Britain to be like Germany, the rich world's economic powerhouse (see article). So he may be heartened that Rolls-Royce, an engine manufacturer with many admirable Teutonic traits, looks set to become a little more German. Its joint bid with Daimler, the Stuttgart-based car giant, for Tognum, a German manufacturer of high-speed engines, was accepted by Tognum's board on May 16th, after the offer was raised from euro24 to euro26 (pound23, or $37) a share. The revised bid values Tognum at euro3.4 billion.

Daimler already owns a 28.4% stake. Rolls-Royce (whose chairman, Sir Simon Robertson, also sits on *The Economist's* board) says it will finance its half of the purchase from reserves and existing credit lines. Like much of corporate Britain, Rolls-Royce has been piling up money for a rainy day. At the end of 2010 it had pound2.9 billion in cash stashed away. Its net cash (ie, excluding debt) rose to pound1.5 billion last year, equivalent to around 15% of revenues.



The hope is that the deal will herald a more general loosening of purse strings. British firms in aggregate have been spending less than they earn for most of the past decade. Saving has increased since the financial crisis struck: at the end of last year the corporate funds left after capital spending, tax, interest and dividends reached 6.2% of GDP (see chart).

This embrace of the German habit of excessive thrift has hurt the economy. Companies are meant to be repositories of peoples' savings, but instead have been huge savers themselves.

The recovery depends on (among other things) companies saving less and spending more. How they disburse their funds matters, too. Using spare cash to boost the value of existing assets, via mergers, has a smaller economic impact (in the short-run, at least) than creating fresh ones by building new factories or upgrading old facilities. Rolls-Royce's move is also a reminder that the cash hoarded need not be spent in Britain. An obvious concern is that Britain's other global firms will, like Rolls-Royce, spend much of their savings abroad, leaving little to spend at home.

In fact, foreign acquisitions can be both right for the firm in question and a sign of better things for the domestic economy. Buying a half-share in Tognum makes sense for Rolls-Royce. The deal will bolster its marine business, based largely outside Britain, which makes engines, propellers and other kit for commercial and navy vessels. Profits in the marine division rose to pound332m last year-close to the pound392m in civil aerospace, Rolls-Royce's main business, which makes and services jet engines.

Tognum has spent heavily on improving its engines to meet emissions standards and to stay ahead of its rivals, says James Stettler, an analyst at UniCredit, a bank. Its engines combine power with compactness in a way that few can match. Rolls-Royce and Daimler will run Tognum as a joint venture so that the costs of developing new engines can be widely spread. Tognum's assembly line has a common platform for all engines, says Mr Stettler, and so can respond flexibly to the needs of both its prospective owners.

And, rather than simply draining funds from Britain, the more powerful and positive signal from the Tognum deal is that businesses are confident enough to splash out and are less anxious about holding insufficient cash. Capital spending by private non-financial companies is already gaining strength. It rose by almost 16% in nominal terms in the year to the fourth quarter. Surveys suggests more to come.

Businesses do not even need to draw on their cash hoard to lift the economy. It would be enough if they stopped accumulating cash at the same high rate. For its part, Rolls-Royce is investing pound300m in its British operations. By buying a bit of Germany's manufacturing, Rolls-Royce might bring some of that country's economic miracle back home.

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Military strategy

The first casualty

The intervention in Libya has cast fresh doubt on the wisdom of last year's cost-cutting defence review



War on the cheap

"NO BATTLE plan ever survives first contact with the enemy," Helmuth von Moltke, a 19th-century head of the Prussian army, famously observed. That is amply true of the Strategic Defence and Security Review (SDSR) published by the government last October. Paul Cornish of Chatham House, a think-tank, thinks it might prove "one of the fastest failures in modern British strategic history".

David Cameron's resolve to take a leading role in Libya immediately called into question one of the main, if unspoken, assumptions underlying the SDSR: that no more "wars of choice" would be fought until the exchequer was flusher. So far, the Ministry of Defence (MoD) is just about coping with the demands of the Libyan intervention; the Treasury has not yet balked at meeting the costs from its reserve, even as they spiral. But it would have been a different story if the Libyan crisis had blown up only a few months later-because the campaign has relied on precisely the sort of air and maritime assets that the SDSR, preoccupied as it was with the land war in Afghanistan, blithely calculated that Britain could do without.

For example, HMS *Cumberland*, one of four Type-22 frigates identified for retirement, was on its way home to be decommissioned before it was sent into action, first ferrying British nationals to safety and then helping to enforce the maritime exclusion zone off the coast of Libya. Similarly, the Nimrod R1 reconnaissance aircraft, due to be scrapped in March, has won a stay of execution because it was needed in Libya. The brunt of Britain's contribution to striking at the Libyan regime's military infrastructure has been borne by Tornado GR4s. The number of Tornado squadrons is scheduled to be reduced from seven to five next month.

And had the SDSR not decided that Britain could take the risk of going a decade without an aircraft-carrier, the already decommissioned HMS *Ark Royal* and its Harrier jets would have joined carriers from France, Italy and America off the Libyan coast. Able to respond more quickly than the Tornados that are flying from Italy, the Harriers would have been especially handy for attacking Muammar Qaddafi's tanks and mobile rocket-launchers. It turns out that much of the "legacy equipment for which there is no requirement"-to quote the SDSR-is still pretty useful.

The Libyan mission has also highlighted the weakness in Britain's broader strategic thinking. Hew Strachan of Oxford University says the SDSR is "strategy-light", and fails to convince on either China or the Middle East-the "two areas where big and really difficult conflicts could occur". Afghanistan aside, he fears that British thinking attempts "to map a world 30 years away" and is not focused enough on the "immediate and unexpected". Michael Clarke, the director of the Royal United Services Institute (RUSI), another think-tank, struggles to find evidence of strategic thinking that goes much beyond being America's "most loyal ally"-and says there has been little reflection on what that notion actually means nowadays. Observers also wonder where responsibility for military strategy ultimately lies in the British system: in the MOD, the new National Security Council or with the overstretched prime minister?

The last hurrah

Liam Fox, the defence secretary, gamely argues that the Libyan operation is a one-off that could not have been predicted. But his private dissatisfaction with the defence settlement is palpable. This week a letter from Dr Fox to Mr Cameron, in which the former took issue with the government's plan to enshrine in law its aim of raising international-aid spending to 0.7% of GDP, was leaked, as was another letter from Dr Fox to the prime minister about defence cuts last year.

His discomfort is likely to worsen. Dr Fox maintains that revising the SDSR would make sense only if the government suddenly decided to give defence more cash-which would mean either backsliding on cutting the country's fiscal deficit or taking money from health, education or something else closer to the hearts of most voters than bombing Tripoli. In fact, the only changes under serious discussion involve even deeper and faster cuts in capability than those announced last year-which might not be anything like enough to bring spending into line with the actual defence budget.

Andrew Dorman, who lectures at the Joint Services Command and Staff College, reckons that the defence budget is set to shrink by between 20% and 30% in real terms, rather than the publicised figure of 8%. That is because the Treasury has left it to the MoD to sort out the pound38 billion ($61 billion) black hole in spending commitments left by the previous government, plus the unbudgeted costs of replacing Britain's ballistic-missile submarine fleet.

Mr Dorman expects new cuts to be announced soon that will include (among other things) speeding up plans to reduce the number of army units, and cancelling the remaining order for Chinook heavy-lift helicopters in anticipation of British combat forces leaving Afghanistan by 2015. However, he and others believe that Dr Fox needs to be still more radical, and that the pace of administrative reforms should be accelerated, culling not only the top-heavy civilian side of the MoD but also the bloated ranks of senior officers: proportional to its size, the British Army has four times as many generals as the US Army.

The crude ring-fencing by the SDSR of capabilities supposedly required for Afghanistan has created another pressing problem: a worsening imbalance between the various parts of the armed forces. Malcolm Chalmers of RUSI calculates that, by 2015, land forces will account for around 65% of total service personnel, compared with current levels of around 55% in America and France, 53% in Canada and 50% in Australia. One partial solution, advocated in a recent paper by Sir Graeme Lamb, a former director of special forces, and Colonel Richard Williams, a former commander of the SAS, would be to move to an army of 75,000, rather than the intended 95,000 (itself down from 102,000), with a larger and more integrated reserve component.

The basic question for British strategy is whether the ways and means implied by the SDSR can support the government's still-ambitious military goals. Or, to put it another way, whether the government's eyes for embarking on high-minded adventures of the Libyan kind are bigger than its stomach for resourcing them.

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More Liberal Democrat woe

A dirtier shade of yellow

After electoral rout, scandal-and reform of the House of Lords

IN THE aftermath of their humbling at the hands of voters on May 5th, the Liberal Democrats had hoped for a period of quiet recuperation. They would grieve for the loss of hundreds of councillors in English local elections and the defeat of electoral reform for the House of Commons in a referendum. Meanwhile, their Conservative partners would soothe them with policy concessions. Instead, the Lib Dems' fortunes have somehow got worse.

The party, which has always cultivated a reputation for ethical cleanliness, is suddenly tainted by scandal. Police are to investigate claims that Chris Huhne, the energy secretary, asked another person to take penalty points he incurred for a motoring misdemeanour in 2003 (a criminal offence, if true). The allegation, made by his estranged wife, is denied by Mr Huhne.

If the police do not find that an offence has been committed, Mr Huhne is likely to survive in his role, despite the lukewarm public backing he has received from David Cameron. But his barely disguised ambition to replace Nick Clegg as Lib Dem leader now looks fanciful.

Were Mr Huhne to leave the cabinet, his natural replacement would probably not be called upon. Last year David Laws quit as chief secretary to the Treasury just 17 days into the job, over claims that he had fiddled his taxpayer-funded parliamentary expenses. A report on him by the Parliamentary Commissioner for Standards, published on May 12th, was damning. It found that Mr Laws had not only broken the rules by claiming rent paid to a landlord who was also his partner, but had also overpaid for the accommodation, wrongly designated his constituency home as his main residence and made unwarranted claims for phone bills and building work.

The commissioner praised Mr Laws for repaying over pound56,000. He also indicated that the MP's motivation for at least some of the offences was a desire to conceal the nature of his private life (Mr Laws's partner is a man) rather than greed. However, the MP's breaches of the rules were "serious" and he was suspended from the House of Commons for seven days. Mr Cameron and Mr Clegg are still keen to revive the cabinet career of a man who embodies the ideological overlap between the two parties like no other. But political decency will probably delay his return until next year.

And the Lib Dems are in danger of losing more than their reputation for probity. Another of their projects, reform of the House of Lords, looks set to fail. Some expected there to be progress towards a more democratic second chamber after the rejection of electoral reform, as a Tory sop to bind the Lib Dems into the coalition. Mr Clegg duly unveiled a plan on May 17th that calls for a chamber of 300 representatives (less than half the current size), with 80% elected for 15-year terms under a proportional voting system, and the remaining 20% appointed.

Alas for Mr Clegg's party, hostility to the plan is widespread. Many Tory backbenchers oppose any concessions to the Lib Dems, and point to popular indifference to constitutional tinkering at a time of economic strife. Labour politicians taunt Mr Clegg for not advocating a wholly elected chamber, which he admits he regards as ideal (though his plan allows for that outcome should MPs support it). There are concerns that a democratic Lords could challenge the primacy of the Commons and lead to legislative gridlock. Most Lords are against change. Such obstacles have scuppered previous attempts to revamp the second chamber. Gallingly for a party that is desperate for some good news, they may do so again.

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Carbon targets

Ends without means

Are the government's tough carbon-emissions targets more than hot air?



INVESTING in renewable energy remains an expensive undertaking. A report by the Intergovernmental Panel on Climate Change released on May 9th put the global costs of renewables during the 2020s at $1.5 trillion (pound930 billion) on current trends, or $7.2 trillion in the event of aggressive action against global warming. The coalition government seems willing for a chunk of that bill to be paid in Britain.

On May 17th Chris Huhne, the embattled energy secretary (see article), set legally binding targets for Britain's greenhouse-gas emissions from 2023 to 2027. The targets are among the toughest in the world, though they will be reviewed in 2014 to see how they compare with policy elsewhere in Europe. Sceptics-including those in the government who worry about the impact on business-might be reassured by the fact that all the other goals for emissions cuts that Britain has espoused look likely to be missed. But misses can still be expensive.

The Committee on Climate Change, the independent body that proposed the 2023-27 "carbon budget", is a creature of the Climate Change Act of 2008, which drew cross-party support. The act decreed that in 2050 Britain's net emissions of the main greenhouse gases should have fallen by 80% compared with 1990 levels, and that to that end the committee should set intermediate targets. This it has done, with increasingly tight five-year carbon budgets for 2008-2012, 2013-2017 and 2018-2022.

But a recent analysis by Cambridge Econometrics, a consultancy, found that Britain would narrowly miss the goals of the first two budgets (and a less formal commitment to a 20% cut in emissions by 2010), and miss the third by about 5%-which will make hitting the fourth and latest budget very tough. The analysts blamed a mismatch between the targets and the policies in place to meet them, while noting that those policies should still deliver lasting carbon reductions.

A lot of those reductions come from support for renewables. The committee calculates that obliging energy firms to use renewables will raise energy costs by 2p per kilowatt-hour in 2020, equivalent to pound50-60 extra on a household's annual bill, or 10% more than might otherwise be expected. The annual cost for the whole economy might be pound6.5 billion.

Policies that concentrated more on cheaper renewables such as biomass, and less on offshore wind and solar panels, would make things less expensive. So might facilitating more new nuclear power through the energy-market reforms the government is developing. On present form, though, the coalition looks like failing in its long-term goals while still alienating the many voters who are sensitive to higher energy prices. For a sustainability policy, that might prove an unsustainable mix.

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Old media 1, new media 0

Old-fashioned copyright laws are set to be left largely intact

JUST about everyone agrees that Britain's 300-year-old copyright laws stifle innovation. An entrepreneur trying to launch a whizzy new way of distributing entertainment, or even a broadcaster wanting to put a programme in an online archive, must hack through a thicket of rights and permissions. A team of experts led by Ian Hargreaves, a journalism professor, has now taken a hard look at this tangle on the government's behalf, lamented its many hazards—and decided pretty much to leave it alone.

The Hargreaves review was launched six months ago in a blaze of technological optimism. Standing near Silicon Roundabout, East London's miniature answer to Silicon Valley, David Cameron declared that copyright laws would have made it impossible for a company like Google to start there. To become a proper high-tech hub, the country needed laws "fit for the internet age"—that is, looser ones.

In Britain (the laws cover Scotland too), creative works are protected by copyright except in specific instances—for example, quoting a book in a review or recording a TV programme to watch later. In America, by contrast, a broad exception is made for the "fair use" of content. Together with rules that protect technology firms from being sued for naughty behaviour on their platforms, that has benefited companies such as Google.

Mr Hargreaves thinks that the fair-use defence cannot be imported to Britain. Fusing two legal traditions would be messy, he said on May 18th; fusing three (the third is European law) perhaps impossible. Instead he wants more specific exceptions. Parody of copyrighted works should be protected. People should be allowed to "format-shift" CDs and DVDs, copying them to their computers and so on. Most important (and most difficult), he wants government to prod the content industry to create a kind of digital copyright shop, so that licences can be traded swiftly.

Few "old" media firms object to any of this. The music industry agrees that people should be allowed to copy CDs to computers and other devices—as has been common practice for a decade. The BBC and others have argued for a parody exemption. News Corporation has called for a digital-rights exchange similar to the one that Mr Hargreaves has proposed.

Which leaves Google and other big technology firms as the obvious losers. Mr Cameron's invocation of the Californian tech giant incited some media outfits to dig in against radical changes to copyright laws. Indeed, many used the review to air new proposals to prevent piracy. One of the most interesting, advanced by Robert Ashcroft of PRS for Music, a collecting society, would have search engines putting "traffic lights" on their results pages to flag websites that contain pirated stuff.

The high-tech future is all very well, but in this respect old media has the upper hand. Google employs a little over 1,000 people in Britain. By contrast, the country is a mighty exporter of reality-TV formats and music (three of the current top 10 albums in America are British). Its newspapers try loudly to sway elections. Given a choice between angering this giant and disappointing Silicon Roundabout, when they come to act on Mr Hargreaves' ideas, expect ministers to plump for the latter.

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Gypsy fairs

All the fun of the fair

England's gypsies try to forget their troubles



Such lovely furry feet

CANDY SHERIDAN, vice-chairwoman of the Gypsy Council, a representative body, smiles as she surveys the familiar, teeming scene at the gypsy horse fair at Stow-on-the-Wold. England's gypsies (of Romany extraction) and travellers (mainly from Irish Catholic backgrounds) come to Stow in their thousands twice a year, in May and October, as they have done for over 500 years. The fairs, Ms Sheridan says, are crucial for "putting ourselves on show, trading with each other and having a sense of pride".

It seems a contented scene. Gypsies and travellers come to deal their trademark horses, piebald or skewbald cobs-highly prized beasts said to have calm temperaments. Ted Chaney, a horse-dealer, says buyers are looking for a glossy mane, a nice size and (the main attraction) finely feathered feet. Loretta Rawlings, another dealer, says that around ten gypsy families, including her husband's, now sell cobs to Australia, Brazil, American and eastern Europe: "They have become luxury items."

Gypsy women do a brisk trade in trinkets, elaborately embroidered clothing, bedding, pots and pans. Younger folk have another reason to come: much wooing takes place in and around the fair. Most gypsy visitors are decked out in their best outfits. Men wear natty suits and Panama hats. Long-haired girls clad in bright Lycra outfits eye up likely lads riding cobs bareback across the fields, or scattering the crowds as they canter their horses and carts among them.

But not everybody in Stow, a prosperous market town in the Cotswolds, welcomes the fair. Edward IV granted it a royal charter in 1476, giving the event legal protection from closure that is still in force-which, for the fair-goers, is just as well. In 1995 the district council took out an injunction that restricts the number of nights that gypsies and travellers can stay before and after the gathering. Many local shopkeepers close their doors during it. Robin Jones, Stow's mayor, is distinctly chilly about the fair, claiming that petty crime is commonplace-though the police say the event is usually peaceful. Vera Norwood, a former mayor, is far more sympathetic, blaming wealthy newcomers to Stow for "nastiness" towards the gypsies.

In any case, many of the gypsies and travellers at the fair have bigger worries than such sniffiness. Government funding for new, permanent campsites has been cut. Some who have bought their own land, but failed to get planning permission for their dwellings, now face eviction. The biggest encampment, at Dale Farm in Essex, is expected to be ordered to leave within a month. Many complain that a recent television series, "My Big Fat Gypsy Wedding", fed anti-gypsy feeling by confirming negative stereotypes. "It's so nice to switch off, dress up and have a chat, rather than be fighting for our rights," Ms Sheridan says. But, she adds, "most people don't really understand us at all."

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A nation of shoppers

A new wave of supermarket-bashing is elitist and muddle-headed



EVEN armed with a product as popular as dried pigs' ears (for dogs to chew), Steve Staddon struggles to make money at the weekly market in Stalham, an ancient town in the watery flatlands where East Anglia meets the North Sea. Mr Staddon sells pet food; a decade ago Stalham market was so busy it took two people to man his stall. In good weeks more than a hundred stalls used to fill the town's auction ground. This week just eight traders turned up. The pigs' ears (on special offer, ten for pound5) sold well but could not lift the general air of gloom. "Basically," charges Mr Staddon, "Tesco has killed this market."

The supermarket firm-the country's biggest-opened in Stalham in 2002. Tesco's car park displaced the market, now relocated to a small, sad site on the edge of town. On Stalham high street, locals grumble, businesses such as a greengrocer, fishmonger, bakery, butcher and a convenience store have closed, to be replaced by charity shops, Chinese takeaways and (prompting mordant jokes) a funeral parlour. Stalham has become a case study for critics of Tesco and other big chains.

Such criticism is in vogue. The charge sheet against supermarkets is lengthening, moving beyond longstanding allegations that they bully suppliers, run rings round town planners and harm the environment (all that packaging, all those air-freighted mangos from Brazil and car journeys to out-of-town stores).

Increasingly, supermarkets have become proxies for modernity itself, and not in a good way. Eager to soothe anxious, recession-hit voters, as well as those squeezed by globalisation, politicians have turned nostalgic, talking up old traditions as a response to the anomies of 21st-century British life. They pledge to look beyond economic growth and worry more about well-being and the survival of small shops. There is much talk of family life, and of resetting the work-life balance. The promise hovers, just over the horizon, of a Britain in which parents and children stroll from their homes with wicker baskets to pick up homely, local goods from storekeepers who know them by name.

On May 17th the Conservative-Liberal Democrat government commissioned a television shopping guru, Mary Portas, to report on ways to protect independent shops, prevent the proliferation of "clone towns" and, in the words of David Cameron, "bring back the bustle to our high streets". Meanwhile, after a new Tesco store was smashed up by rioters in Bristol, the Labour leader Ed Miliband called for tighter controls on store-openings, opining: "people think the character of their local high street is being changed and they have no power against big corporations."

A hurdle for Tesco-bashers is that competition probes launched by the previous Labour government endorsed the status quo, with the Competition Commission finding in 2008 that Britain's grocery market-in which four chains fight over two-thirds of all sales-represents a good deal for consumers. The response from supermarket-critics is to try to detach commercial success from popular legitimacy. A paper published in April by ResPublica-a so-called "Red Tory" think-tank with a following among Conservatives sceptical of free markets-suggests that competition law be tweaked to give the interests of the community (established by a local referendum, say) precedence over the "consumer interest", which currently dominates.

Similar ideas are espoused by "Blue Labour"-an anti-modernist movement led by an adviser to Mr Miliband, Lord Glasman, who combines English romanticism with a soft spot for guilds, works councils and the post-war German social-market economy. In a foreword to a book of Blue Labour essays, Mr Miliband calls for Labour to shield communities from the "encroachments of both government and markets". Labour, he says, "locates true freedom in thriving communities not individualism."

Strip away the pieties and this is illiberal stuff. It implies that the British need protecting from their own consumer choices.

Voting with their feet

The nostalgics don't even have their history right. A big research project at the universities of Surrey and Exeter is currently studying shopping in post-war England. For one thing, high streets were not as quaint as politicians think. As far back as 1939, chain stores and co-operative (ie, mutual) retail societies already controlled about half of the grocery market. It was middle class matrons, the sort who dressed up to go shopping, who missed the deference shown by traditional grocers. Supermarkets were often welcomed by younger and working-class women. A retired secretary interviewed by the project recalled, as a young bride, asking the butcher for a tiny amount of mince. "Oh, having a dinner party, madam?" he sneered. A woman who bought anything expensive or unusual risked disapproving gossip, spread by shop assistants. The project found press advertisements promoting the anonymity of supermarkets, as well as their convenience.

Even in Stalham, the picture is mixed. Tesco "brainwashes" customers, says one shopkeeper. Yet Martin Towers, who owns a hardware store, says Tesco draws visitors to town. Some shops failed after it opened, but "perhaps they were not in the best shape already". The superstore killed Stalham as a weekly marketplace, Mr Towers agrees, "but as a high street, not particularly".

Giant supermarket chains wield great power: it is legitimate to demand that power is wielded fairly. Not every shopper at a Tesco loves that company: some use such shops through gritted teeth. But others might have spotted that supermarkets, thanks to late opening or online ordering, actually buy working families time. From the first, the British have been ambivalent about supermarkets. It is wrong and elitist for politicians to dismiss their success out of hand, just because it clashes with some sepia-tinted vision of how society should be run.

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Responsibility to protect

The lessons of Libya

Outsiders had good reason to intervene in Libya. But their cause may suffer from it



FOR those who back muscular humanitarian intervention, both the words and deeds of Colonel Muammar Qaddafi provided absolute moral clarity. "Come out of your homes, attack [the opposition] in their dens," he told his supporters on February 22nd. He called the protesters "cockroaches" and "rats" who did not deserve to live: language chillingly reminiscent of the broadcasts of Radio Mille Collines, which spurred on the perpetrators of Rwanda's genocide in 1994.

As he spoke, his forces had set their sights on Benghazi, their adversaries' stronghold. According to Human Rights Watch, a New York-based group, government forces had already killed 233 people in the preceding week. A bloodbath beckoned, in a city of 700,000 people. The United Nations Security Council invoked a fateful formula, urging the regime to meet its "responsibility to protect" its people. On March 17th the council, "expressing its determination to ensure the protection of civilians", ordered air strikes.

That set the stage for the first full-blown test of a principle that the UN adopted in 2005 and has been refining since. The doctrine of "responsibility to protect" (R2P) holds that when a sovereign state fails to prevent atrocities, foreign governments may intervene to stop them. Human-rights advocates say it saves lives. Sceptics see it as too easily misused to be useful: a cover for imperialism, or even an incentive to kill (because even if a massacre is not looming, an unscrupulous warlord might be tempted to engineer one against his own people to spur outside support).

Previous uses of R2P have been solo ventures. In 2008 Russia used it to justify attacking Georgia, and France cited it after the cyclone in Myanmar, implying that humanitarian aid might have to be brought in by force if the regime persisted in stonewalling (it backed down). But before this year, no mission had been authorised by the UN Security Council that so explicitly cited the new principle.

Swamps and fogs

At first it looked likely that the doctrine would either triumph or die in Libya. But two months and thousands of air strikes later, war's messy reality has merely hardened views on both sides. On one hand, the decision to go to war was made in good faith at a time when the risk of massacres seemed real. As Mats Berdal, a professor at King's College London, points out, the world's leading powers had good reason to think they were "avoiding a Srebrenica"-the massacre of Bosnians which UN forces failed to avert in July 1995.

But as the war drags on and NATO strikes more widely, sceptics also feel their case has been bolstered. "For those of us who feared that R2P was just a warrant for war, our fears have been vindicated," says David Rieff, an advocate-turned-critic.

Responsibility to protect gained ground after ghastly mass killings in the late 20th century, including massacres by the Khmers Rouges in Cambodia in the 1970s; the use of chemical weapons in Iraq in 1988; and ethnic cleansing in Bosnia. In 1999 NATO unleashed an air war, without a UN blessing, to stop a Serbian campaign in the province of Kosovo. It argued that the need to protect civilians was an overwhelming moral imperative. The UN gave a sort of retrospective

blessing by endorsing an international tutelage for the territory, led by Bernard Kouchner, a French pioneer of humanitarian intervention.

But the terrible civil war in Iraq that followed America's invasion in 2003-portrayed as intervention against tyranny-shrivelled support for the doctrine. A possible result of that may have been hesitancy in intervening to stop the Sudanese government's genocide in Darfur.

Seeking to restore liberal hawkishness's good name, a group led by Gareth Evans, a former Australian foreign minister, pushed the UN's 60th anniversary conference in 2005 to endorse the idea that the world has a "responsibility to protect" civilians. Eventually 150-plus countries agreed to allow armed intervention through the Security Council "should peaceful means be inadequate and national authorities are manifestly failing to protect their populations from genocide, war crimes, ethnic cleansing and crimes against humanity."

So much for the theory. What about the practice? Colonel Qaddafi provided an all-but-unique test. Regional leaders loathed him and readily dumped him. The Arab League's support for the intervention stopped Russia and China wielding their vetoes. And the concentration of the rebels in the east, combined with flat desert terrain, at first made the regime's forces easy bombing targets. "The stars were well and truly aligned in the Libya case," says Mr Evans. "All the criteria were satisfied."

The immediate goal of protecting Benghazi from massacre was achieved within days. Having destroyed Libya's air defences, Western bombers and missiles pummelled the advancing troops into a speedy retreat.

Harder decisions followed. Libya's army continued to shell other rebel-held cities, and its snipers were plainly targeting civilians. Protecting all Libyans, not just those in the east, would require the end of Colonel Qaddafi's rule-an outcome that both Western and Arab governments had already called for. NATO stepped up its military campaign, bombing retreating columns as well as advancing ones, and attacking command-and-control centres frequented by Colonel Qaddafi and his family. On April 30th an air strike killed one of his sons. The line between curbing atrocities and an air war for regime change blurred-though a land operation is ruled out, for the moment.

Your war is my argument

Both sides of the debate will eagerly cite Libya the next time mass murder seems imminent. It shows that a modest dose of air power can save lives; but also that the rhetoric of civilian protection can be stretched to justify a creeping mission. Power politics decides which lives get saved, and which policy aims triumph.

Mr Rieff decries a "two-tiered system of interveners and intervened upon", where the "old imperial powers" make the rules. But which powers exactly? The Libyan vote passed only because non-Western Russia and China withheld their Security Council vetoes: all but unimaginable until recently. Both countries are now getting cold feet, claiming misuse of the resolution's elastic language. For different reasons Mr Evans bemoans excess zeal too: he wants to preserve the purity of R2P, and fears an interpretation that allows for "all-out aggressive war". A lot rides on this war-and not just for the Libyans.

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Exile for autocrats

You can run. But can you hide?

Fleeing tyrants find scant refuge. A pity?



"WE HAVE soft spots for asylum-seekers," says a spokesman for Uganda's president, Yoweri Museveni. If Colonel Muammar Qaddafi wants to move to calmer quarters, he would be welcome there. His Western foes might applaud the offer. Anxious for a swift conclusion to the war in Libya, they are apparently scouting for a foreign bolthole for the colonel.

Like Yemen's president, Ali Abdullah Saleh, and Syria's Bashar Assad, Colonel Qaddafi is among a bunch of rulers that many would like to see shuffle into exile. But the list of cosy havens for deposed dictators has shrunk in recent years. Waterloo (in Belgium) used to be popular with retired despots and plenty were happy swanning about the French Riveria. Now a plethora of international laws and treaties, and the rise of the International Criminal Court (ICC) have made safe spots scarce.

In the past countries such as France and Belgium argued that offering tyrants an escape route prevented bloodshed and eased transitions in their homelands. Today most countries that ex-dictators would regard as liveable are bound by extradition treaties and human-rights conventions to bundle the big and bad back home or off to a trial in The Hague. Not that staying put is much safer. Egypt's Hosni Mubarak retreated to Sharm el-Sheikh after being ousted but is now in police custody in hospital and may face charges on a host of crimes.

But the Libyan ruler has other options. Idi Amin, Uganda's odious tyrant, and Colonel Qaddafi's fellow Arab autocrat, Zine el-Abidine Ben Ali of Tunisia, both fled to Saudi Arabia. The kingdom has long felt a religious obligation to beleaguered Muslim rulers, no matter what their crimes. Although Amin never gained official asylum, he was allowed to perform an extended pilgrimage, involving 23 years mostly in hotels and villas in Jeddah. Alas for Colonel Qaddafi, accusations that he once plotted to assassinate the then crown prince, now king, Abdullah, mean he is unlikely to be offered succour by the House of Saud.

Notable foes of the West, such as Hugo Chavez and Daniel Ortega, have expressed their support for Colonel Qaddafi. But anti-imperialist solidarity only goes so far: domestic outrage has prevented either man from offering him a definite invitation. Mengistu Haile Mariam, the overseer of Ethiopia's Red Terror in 1977-78, has been an official guest of Zimbabwe's Robert Mugabe since 1991; an Ethiopian court convicted him of genocide in 2006. Belarus is under suspicion of supplying weapons to Libya in February; it might offer the colonel refuge. (Given his own dictatorial tendencies, the Belarusian leader, Alyaksandr Lukashenka, may require similar favours in years to come.)

The political cost of playing host to ousted autarchs may be outweighed by their riches. Critics say Mr Ben Ali's wife scooped up 1.5 tonnes of gold as she fled Tunisia (worth about $71m today). But much of the colonel's assets are frozen-and with that, his attractiveness.

Some say countries that welcome such grimy guests are offering a public service. Bruce Bueno de Mesquita, a professor of politics at New York University, argues that organisations such as the ICC and the European Human Rights Commission, along with the governments that support them, need to rethink their stance.

Mr Bueno de Mesquita, whose book "The Dictator's Handbook" will be published in September, suggests a compromise: faced with an uprising, if dictators refrain from slaughtering their citizens, international law could provide some kind of exit. Such an approach, he says, could have tempted Saddam Hussein out of Iraq. Mr Assad might be more readily eased out of Syria if something more appealing than a tribunal at The Hague were on offer.

If Mr Assad and Mr Saleh want to start considering their options, Riccardo Orizio, who has interviewed a clutch of exiled dictators, recommends they look at breakaway statelets that almost no one recognises, such as the self-proclaimed republic of Transdniestria (nominally part of Moldova). Such places come with most of the trappings and comforts of a state, but few of the niggling international obligations.

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Retail in China

All eyes on Chinese aisles

Who will conquer China's rampant retail market? Probably no one



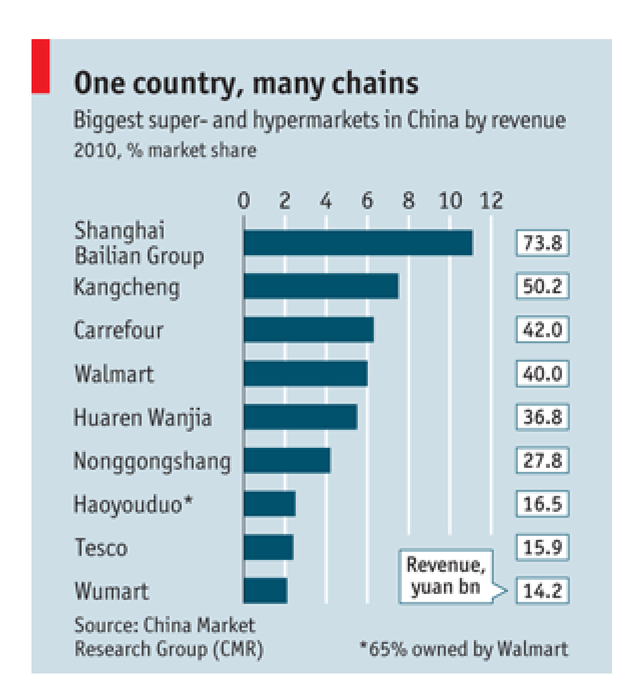
A HEAP of raw chickens greets customers at a Wumart store in Beijing, piled up on a table without packaging or protection against passing sneezers. The shop front is dirty, the decor shabby and the goods inside are displayed without the slightest attention to aesthetics. But the prices are wonderfully low.

China is the world's fastest-growing major retail market, and may one day be the biggest. Foreign chains such as Carrefour, Walmart and Tesco are piling in. Yet none of them nor any of their local rivals comes close to dominating China as Walmart dominates the supermarket business in America. The largest chain, Shanghai Bailian, has only 11% of the market and barely registers outside its home region.

A comparison of Walmart's Chinese operations with those of Wumart, a Beijing-based chain, is illuminating. Wumart is cheaper-hence that heap of raw chickens. Walmart is considered fancier, a fact that may surprise American shoppers. Its stores are well-lit and spotlessly clean. Its wares are safe, reliable and tastefully displayed, though they differ somewhat

from those on offer in Arkansas. Basins brim with live fish and sea turtles that clients can kill at home or have slaughtered on the spot. Other delicacies include birds' nests, pigs' feet and sea cucumbers (which resemble foot-long aquatic slugs).

Walmart, the American giant, entered China in 1996, five years before the country joined the World Trade Organisation and liberalised its retail sector. Yet despite starting early, it has advanced slowly. In 2006 it took over Taiwan's Trust-Mart, which added more than 100 shops to its Chinese operations. Today Walmart has 338 shops in 124 Chinese cities, with 90,000 employees and annual sales of some $7 billion. Not bad, but that amounts to less than 3% of its sales in America.



Wumart, the Beijing-based chain, was founded in the early 1990s by Zhang Wenzhong, who had developed an IT system for retailers while at Stanford University but found that retailers weren't interested in it. He returned to China and opened his own chain of stores. By 2005 Wumart had more than 450 hypermarkets, supermarkets and convenience stores.

He aimed to have 1,000 by 2010, but that did not happen. Wumart today has 469 shops with annual sales of 14 billion yuan ($2 billion). Mr Zhang, alas, is serving an 18-year prison sentence for bribery. His store is big in Beijing, tiddly elsewhere but still ambitious. "We dream about being the Walmart of China," says Fu Yu, a Wumart spokesman.

Wu Jianzhong, Wumart's chairman, thinks Chinese stores need to spruce up. "Foreign retailers wear suits when they welcome visitors, while the Chinese wear shorts because they feel they are familiar with their clients," he sighs. Chinese executives should at least wear long trousers, he reckons. Otherwise foreigners might win the fierce fight for footfall (retail jargon for the number of shoppers).

Retail sales in China are $1 trillion a year and growing by around 18% annually. China's 1.4 billion people are rapidly urbanising and ravenous for all the goods they couldn't have a generation ago. Their government is eager to promote domestic consumption. But the Chinese middle class is not nearly as rich as the middle class in developed countries. A mere 1.4% of urban households make more than $15,000 a year, and only 11% make $5,000-15,000. And all these people save furiously, because unless they work for the state they are unlikely to receive much of a pension.

Small wonder that they love low prices. Small wonder, too, that the government, which fears anything that might provoke unrest, fears inflation. Consumer inflation is officially 5.3% but probably higher. The central government has cranked up interest rates, banned the hoarding of staple foods, raised subsidies to low-income families and increased the minimum wage. It also takes a hard line against any private company suspected of stoking inflation. Unilever was fined $310,000 earlier this month for mentioning to reporters that it might raise prices-the news sparked panic buying of shampoo in March.

Supermarkets could cut prices if their supply chains were better-oiled. Moving food from farm to fork is a nightmare. China has few big farms. More than four-fifths of the rural population of 675m work on tiny plots. "Logistics, warehousing and shipping are still very inefficient," says Chiang Jeongwen of the China-Europe International Business School in Shanghai.

The next big thing for retailers in China will be the less-developed cities of the country's interior. It's a "land-grab", says a Chinese executive. Everyone is vying for first-mover advantage. Yet although no one wants to arrive too late, no one wants to be too early, either. Those who open stores when locals are still too poor to shop there can lose a packet.

The market has a Wild West feel. Huge areas of China are wide open, and it helps if you are chums with the local lawman. Retailers depend on local government for a licence and a place to operate. "The prime space always goes to local players," says Sunny Wong, the boss of Lifung Trinity, a retailer. Tellingly, the Bailian Group, China's biggest retailer, is state-owned.

"There could be political tensions if a foreign retailer gets too big or too dominant," says Matthew Crabbe of Access Asia, a consultancy. There seems little danger of that. Neither Carrefour nor Walmart has much more than 6% of the market. Provincial governments favour provincial retailers. The national government gives a helping hand to all Chinese chains. Foreigners are on their own. Call it the Great Wall against Walmart.

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Chinese gambling

The high-roller's guide to the Galaxy

Why does Macau have no mainland Chinese rivals?



A palace for losers

CASINO gamblers hate two things. One is losing. The other is understated decor. There is no risk of the latter at the Galaxy, Macau's latest shrine to excess, which opened on May 15th. Its owners, Galaxy Entertainment, a firm controlled by the family of Lui Che-woo, a Hong Kong cement magnate, claim to have slapped enough gold leaf on its fixtures to cover 87 football pitches. To recoup the $1.9 billion it cost to build the Galaxy, it will have to attract a lot of losers.

Macau, a former Portuguese colony known for gambling and other vices, was handed back to China in 1999. By this accident of history, it became the only place in the People's Republic where casinos are legal. Stanley Ho, an ageing local tycoon, lost his monopoly over the business (though his family still controls or has fingers in roughly half of it). Glitzy Western casino operators arrived to challenge his bedraggled gambling dens with their spit-stained carpets. The Sands opened in 2004, the Wynn in 2006 and the Venetian in 2007, each fancier than its predecessor. The Galaxy tops the lot. What will come next?

Possibly not much. Granted, the Sands hopes to open an even bigger casino next year, and three out of the four other operators (Wynn, MGM and Mr Ho's SJM) have ambitious plans. But there are new constraints. Macau's government, perhaps at the urging of Beijing, recently capped the number of gambling tables in Macau at 5,500, approximately the current number. Another 3-4% will be allowed annually, split between all the operators. That hardly allows room for mega-projects-the Galaxy alone added 450 tables.



Perhaps the government will relent. Demand shows no sign of slacking. From December, the three-hour bus ride from Guangzhou to Macau will be replaced by a 47-minute trip on a high-speed train. Eager punters from the Chinese interior will suddenly find temptation nearer. Aaron Fischer, an analyst with CLSA, a broker, predicts that gambling revenues in Macau will rise by 35% this year, 25% next year and 20% thereafter, while the supply of new tables will rise only gradually. Fat profits beckon.

The greatest threat to Macau's licence to print money is that the Chinese government may grow jealous. It has in the past limited the number of visas it issues for mainland visitors to Macau. And there are rumours that it may allow casinos on other patches of its territory, such as Hainan, an island province in the south. Casinos are popular, pay a lot of taxes and please well-connected developers. It would hardly be a surprise if the government in Beijing decided to grab a piece of the action.

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The global car industry

After the quake

Japanese carmakers are shaken. That helps their rivals



The long slow task of rebuilding

ROBOT arms are whirring again. Nissan's engine factory in Iwaki, which was pummelled by the earthquake that struck Japan in March, returned to full operation on May 17th. Carlos Ghosn, the car firm's Brazilian-French boss, joined hundreds of workers in a rousing cheer. Yet despite heroic efforts to repair and rebuild, Japan's car industry is still crippled. And that could have global consequences.

The disaster barely dented factories belonging to the big Japanese carmakers. (Nissan's plant in Iwaki was an exception.) But it ravaged the suppliers of critical parts and raw materials in north-eastern Japan. Toyota faces a shortage of 30 components. That is much better than the 500 it lacked shortly after the quake, but it only takes one missing part to bring an assembly line stuttering to a halt.

Repair work continues apace. Factories that were shuttered are now running at half of usual production. Nissan hopes to return to normal in the early autumn; Toyota and Honda a bit later.

Yet Toyota may be overtaken by America's General Motors (GM) as the world's biggest carmaker by volume this year (having stolen its crown in 2008). Germany's Volkswagen is hard on its tail, too. Nissan was advancing rapidly before the quake but Mr Ghosn now admits that it may lose market share this year.

South Korean and American carmakers are benefiting from their Japanese rivals' travails. The American sales of Hyundai and Kia last month were up by 40% and 57%, respectively, from a year earlier. Detroit's big three carmakers gained 3.2 percentage points in market share from the previous month, having for once offered a line of small, green vehicles such as the Ford Focus and Chevrolet Volt. Japanese carmakers between them lost a massive 4.5 percentage points of market share.

For Japanese car firms, the quake could not have struck at a worse time. Their home market has stalled. They were already struggling to hang on to market share in Europe. As the price of petrol soars, fuel-sipping Japanese cars would normally zoom past rivals, but drivers won't buy what the makers don't make.

The shortage of parts has delayed the launch of several models, such as Toyota's iQ microcar and Prius V, plus Honda's 2012 Civic and its CR-V (a cross between a sports-utility vehicle and a sedan). The shortage of Japanese cars has spurred American dealers to raise some prices by as much as $3,000, according to TrueCar.com, an industry website.

The quake has affected non-Japanese carmakers, too, since many buy parts from Japan. GM has suffered interruptions in America and Europe. Chrysler could end up making 100,000 fewer vehicles. Ford told dealers to stop taking orders for some popular colours, such as "Tuxedo Black". (Any colour, it seems, as long as it's not black.) But overall, global capacity far outstrips demand. About 70m cars and light trucks will be sold this year, predicts IHS Automotive, a consultancy, but carmakers could produce 95m. That makes the struggle for market share especially brutal.

Japanese firms are showing admirable solidarity. When car firms realised that eight factories belonging to Renasas, a crucial supplier of the microcontrollers that run a vehicle's electronics, had been damaged, they sent 2,500 of their own staff to help it restart. More than 1,000 aftershocks have slowed the recovery. Power is in short supply, albeit recovering. The strong yen hurts exports. Plans for Japan to join regional free-trade talks have sputtered.

Japanese car firms were already shifting production away from Japan, to spread their risks and move closer to their customers. The quake will accelerate this process. Toyota's official goal is to assemble 45% of its cars at home, but Akio Toyoda, its boss, admits that: "We can't go on with just a desire to protect manufacturing in Japan." Nissan makes only 25% of its cars in Japan, and is shifting production to America for its Rogue and Infiniti JX models.

The quake cost Toyota Â¥100 billion ($1.2 billion), the most of any Japanese carmaker so far. Nissan lost less, for several reasons. It held more inventory, since it was ramping up production for China and America, notes Masataka Kunugimoto, an analyst at Nomura, an invesment bank. Its supply chain is more global, and it encourages more competition among its suppliers, rather than relying on long-term relationships. So when one supplier stumbles, others can pick up the slack. Nissan can tap suppliers to Renault, a French carmaker with which it shares parts, equity and a chief executive.

At the Iwaki engine factory, Mr Ghosn was asked whether Nissan would press its Japanese suppliers to build plants overseas to protect against future disruptions. He dismissed the idea. All that really matters is that lone suppliers with only one plant should have a back-up plan, he said. The entire industry hopes they do.

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BP and Rosneft

Still in the pipeline

The British oil company's Russian deal is not dead yet

LIKE Rasputin, BP's deal with Rosneft refuses to die. The mad Russian monk survived poison, stab wounds, gunshots and a beating before finally succumbing to the icy waters of the River Neva. BP's deal-to swap shares with the state-backed Russian oil giant and explore for Arctic oil-seemed to have expired merely because a deadline passed on May 16th. But there are deadlines and deadlines. Contrary to most reports, the deal is not yet dead.

BP's troubles started straight after the scheme was announced in January. AAR, its Russian partner in TNK-BP, a money-spinning joint venture, objected to the tie-up. It appeared to break an earlier agreement between the two that the British oil firm would pursue all its Russian projects through the joint venture.

BP not only went behind AAR's back, but it also apparently failed to make clear to the Kremlin that it had a legally binding agreement with AAR. When the latest deadline passed, AAR and BP had found common language, but Rosneft was not on board. AAR wants to be bought out from TNK-BP but demands a stake in BP-not just cash-as part of the settlement.

BP has conceded some ground by agreeing on terms which the Russian partners found acceptable. Rosneft says it has now received a new proposal from BP. One difficulty was finding a mechanism that would lead to the immediate lifting of a tribunal's injunction that had prevented BP and Rosneft from swapping shares.

Noises coming out of Moscow suggested that the plan was dead and that Rosneft was seeking a replacement for BP. But some saw in this a ploy to put pressure on all parties to reach some sort of agreement. A source close to the negotiations admits that "there is still room" for talks to resume.

One reason for expecting the deal to revive is that Rosneft may have trouble finding another suitable oil company to exploit Arctic reserves. Rosneft would still want a share swap as part of its ambition to become a global oil company. But other Western oil majors, lacking BP's experience in Russia, might be reluctant to strike a deal that would effectively bring the Kremlin into the boardroom.

If, in the weeks to come, a solution can be found that keeps all parties happy, a new, similar arrangement is not out of the question. Indeed on May 18th Rosneft admitted that talks with BP and AAR could resume. Rasputin's enemies eventually managed to do away with him. BP's deal is still breathing, just, but the British firm has precious little to ra-ra about.

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Public relations

Slime-slinging

Flacks vastly outnumber hacks these days. Caveat lector

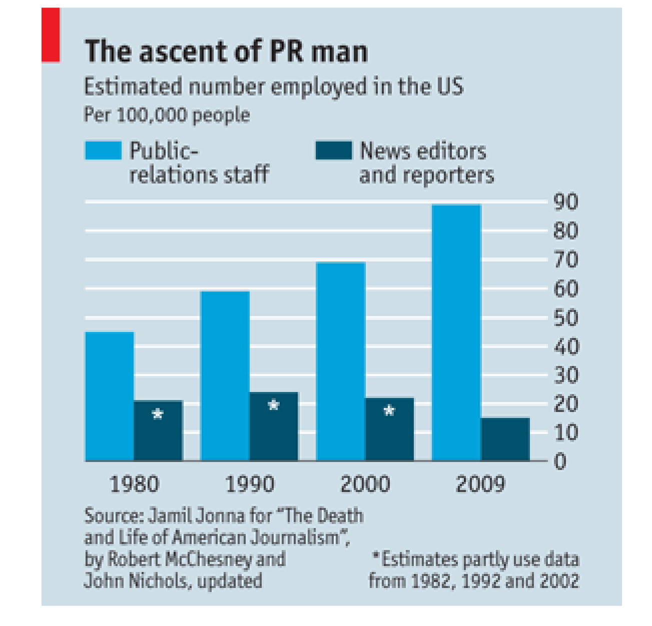


A pie for a pie

FOR journalists, public-relations agents are like urban foxes: there seem to be more of them about these days, and they are more brazen than ever. Reporters were shocked, shocked to hear on May 12th that Burson-Marsteller (BM), a big PR agency, had tried to persuade newspaper writers and a blogger to scribble nasty things about Google's record on privacy, while concealing that its growing rival, Facebook, was paying for this lobbying. To make things worse, BM then erased criticism of its shady spinning that had been posted on the agency's own Facebook page. It thereby committed three cardinal sins of PR: becoming the story; getting caught; and appearing to attempt a cover-up.

The PR flacks who did Facebook's dirty work were two ex-journalists who had only recently gone over to the dark side. Their error was to put their indecent proposal in writing, in an e-mail pitch. When the blogger, Christopher Soghoian, sensibly asked who was paying them to do so, they refused-again in writing-to say, whereupon Mr Soghoian published their exchange of messages. This prompted *USA Today* to reveal that it had been on the receiving end of a similar PR pitch, and the *Daily Beast*, an online newspaper, to reveal that Facebook was the paymaster.

More seasoned PR flacks might have done it differently. First, lunch the journalists concerned, ostensibly to discuss some other story. Then, over dessert, casually slip into the conversation the poison that their secret client wanted them to spread. With luck the reporters would follow up on the scuttlebutt without mentioning its source, assuring themselves that they had got the story through their "contacts".



Journalists may grumble privately about practices such as BM's badmouthing of Google, but few would be as brave as Mr Soghoian in exposing them, thereby jeopardising their relationship with a powerful PR agency. The incident shows how the upheaval in the news business is working for, and against, the PR firms. Newspapers and other old media are losing influence-and thus becoming less worth lobbying. But job cuts and online obligations mean journalists are also more desperate for copy, making them a softer touch. Research by Jamil Jonna of the University of Oregon (originally for a book, "The Death and Life of American Journalism", but since updated) found that as newsrooms have been slimmed and PR agencies have grown fatter, for each American journalist there are now, on average, six flacks hassling him to run crummy stories (see chart).

There are few new tricks in public relations. Mud-slinging against a client's rivals; offering newspapers ready-made articles containing plugs for a client's products; cutting off reporters who write negative stories and rewarding malleable ones with exclusives; bribing experts to lend their reputation to a client's cause: examples of all these and more can be found way back in the industry's century-long history. But the increasingly thin staffing of newsrooms seems to be encouraging the spinners to be more shameless than ever with such tactics.

Besides noting the decline of traditional news outlets, some in PR see new opportunities in the cacophony of voices in online social media. Bombarded with all that blogging, tweeting and Facebooking, consumers will surely, more than ever, be looking to a few trusted "influencers" to tell them what to think, an idea foreshadowed in "Propaganda", a 1928 spinner's bible by Edward Bernays, PR's founding father. In some industries-technology and film-making are prime examples-the leading bloggers now have the sort of influence that used to be the preserve of revered newspaper columnists.

So PR flacks with clients in those industries now put much effort into targeting such online influencers. But as Mr Soghoian has amply demonstrated, these non-traditional journalists do not necessarily feel obliged to play by the rules.

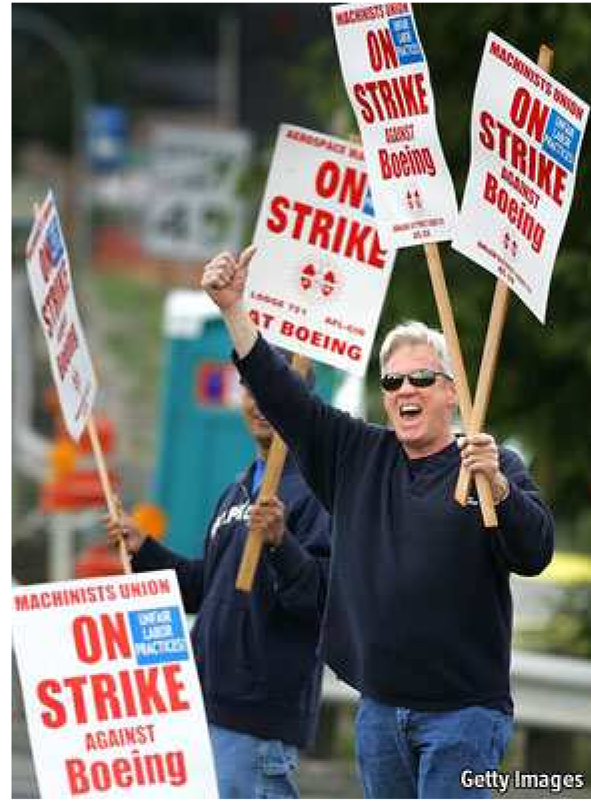
They may not care about being cut out of the loop if they reveal PR firms' manoeuvrings; and they don't have to deal with a growling, red-faced news editor demanding to know why they didn't get a story that had been spoon-fed to a rival, more PR-friendly paper.

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Boeing and the NLRB

A watchdog bites

A federal agency bashes Boeing



Come to Washington and never leave

THE factory squats on 610,000 square feet of land in North Charleston, South Carolina, and represents an investment of over $1 billion. It is scheduled to begin producing aeroplanes in July-Boeing's 787 Dreamliners, 835 of which have already been ordered for around $162 billion. It will employ thousands of workers: good news in a state where unemployment hovers around 10%. Unless, that is, the federal government shuts it down.

In March 2010, District Lodge 751 of the International Association of Machinists and Aerospace Workers (IAM), which represents workers at Boeing's Washington and Oregon plants, filed a complaint against Boeing with the National Labour Relations Board (NLRB), a federal agency that investigates allegations of unfair labour practices. The union charged that Boeing's decision to put a second production line of 787s in South Carolina (most of the planes will still be built at its Pacific Northwest plants) violated American labour laws. On April 20th of this year the NLRB's acting general counsel upheld the complaint.

What did Boeing do wrong? Its boss, Jim McNerney, referred to "the negative financial impacts" to Boeing of "strikes happening every three or four years in Puget Sound". Jim Albaugh, an executive vice-president, told the *Seattle Times* that the overriding factor in deciding to expand in South Carolina rather than Washington "was not the business climate and it's not the wages we're paying people today. It was that we can't afford to have a work stoppage every three years."

Such statements "were coercive to employees", says the NLRB. "[Boeing's] actions were motivated by a desire to retaliate for past strikes and chill future strike activity." The complaint seeks to prevent Boeing from building 787s beyond its Puget Sound, Washington plant.

Businesspeople everywhere in America are stunned. Employers have a constitutional right to whinge about unions (and vice versa). They are not allowed to punish strikers-by sacking them, for example. But Boeing has done nothing of the sort. No work has been transferred from Boeing's Puget Sound plant to South Carolina, nor have any IAM members lost their jobs. In 2007 Boeing announced that it would build seven 787s per month in Puget Sound; two years later, to handle the backlog of orders, it announced an expansion to South Carolina. The backlog is so large that Boeing is increasing its workforce at Puget Sound, not cutting it.

Boeing's general counsel, J. Michael Luttig, calls the complaint "preposterous" and "a breathtaking substitution of [the NLRB] for management in the running of an American company". Republicans, including South Carolina's governor and two senators, are using the case as a club to bash the president (who has remained silent). Democrats and labour supporters insist that the complaint is unremarkable. Both sides will plead their cases before a judge in Seattle on June 14th-just weeks before a factory in South Carolina will (or won't) start making planes.

Ronald McDonald

Coulrophobia

Health activists want to sack the world's best-known clown



FEAR of clowns is known as coulrophobia. Some health activists are so afraid of the impact that a certain red-haired clown has on children that they want him to retire. On May 18th several American newspapers carried ads paid for by Corporate Accountability International (a group that helped to kill cigarette-touting Joe Camel) in support of a shareholder resolution at the annual meeting of McDonald's the following day urging the fast-food chain to stop marketing burgers to children. The activists want an end to Happy Meals, and they want Ronald McDonald to hang up his outsized shoes.

Why so timid? The activists stopped short of demanding that McDonald's rename its fare as "Flabby Meals", or that Ronald McDonald be replaced as the corporate mascot by Mr Creosote, the morbidly obese Monty Python character who explodes after overeating.

McDonald's says it has no intention of throwing the 48-year-old clown into the deep-fat fryer. He is a "force for good", says the company, which started calling him a "balanced, active lifestyles ambassador" as long ago as 2004. Nowadays, when he appears in ads he is shown playing sports, with nary a burger in sight. Ironically, this seems to have gone down badly with the public; the ads have reportedly tested poorly, with many viewers finding them "creepy".

Meanwhile, on May 17th, McDonald's hosted a special ceremony in Fond Du Lac, Wisconsin, to celebrate a customer consuming his 25,000th Big Mac. Don Gorske, aged 57 and slim, claimed to have low cholesterol and recently to have been given a clean bill of health.

Schumpeter

The Catalan kings

The management secrets of Barcelona Football Club



A POPULAR debate among football obsessives concerns whether Barcelona-Barca to its fans-is the best club soccer team the world has ever seen. Is it better than the Santos of the 1960s (which was home to Pele)? Or the AC Milan of the 1990s? The answer is gloriously unclear. But Barca is surely the finest team in the world right now: the standard against which other ball-kickers must measure themselves. Consider the evidence. Barca recently beat its old rivals, Real Madrid, to win the Spanish league. It boasts the best player in the world: Lionel Messi. It goes into the European Champions League final at Wembley on May 28th as the clear favourite (though it would be foolish to underestimate Manchester United).

Barca is also a cash machine. It is number two in Deloitte's league of the world's highest-grossing football clubs, behind Real Madrid; with revenues of euro398m ($488m) in 2009-10 (Real Madrid earned euro439m). It has doubled its revenues over the past four years. Last year Barca signed a five-year sponsorship deal with Qatar Sports Investment for a minimum of euro165m, which would involve putting a commercial logo on the team's shirts for the first time. Barca and Real also have an advantage in that they receive a hugely disproportionate share of the revenues from televising La Liga, the Spanish premier league. That said, no one knows how profitable Barca is, nor how indebted.

How has a club that is based in one of Europe's unemployment blackspots turned itself into the ruling power in the world's most popular sport? An obvious answer is that Barca plays as a team in a sport that has far too many prima donnas. It keeps the ball moving, dominates possession and keeps its opponents under constant pressure. But there is a less obvious answer, too, and one that has implications beyond the football pitch. Barca has provided a distinctive solution to some of the most contentious problems in management theory. What is the right balance between stars and the rest of mankind? Should you buy talent or grow your own? How can you harness the enthusiasm of consumers to promote your brand? And how do you combine the advantages of local roots and global reach?

Barca puts more emphasis than any other major team on growing its own players. Other football teams often resemble the United Nations-the Arsenal first eleven, for example, frequently includes just two native-born Britons. Barca, by contrast, is still dominated by local players, and Catalan is often spoken in the dressing room. Eight of the team's leading players are products of its football school, La Masia. That includes Mr Messi, an Argentine who moved to Barcelona as a boy, and the team's coach, Josep ("Pep") Guardiola. La Masia is unique among football schools. It is a boarding school that puts as much emphasis on character-training as on footballing skills. The students are relentlessly instructed in the importance of team spirit, self-sacrifice and perseverance. They are also taught that Barca is "more than a club": it is the embodiment of Catalan pride that kept the region's spirit alive during the years when Spain groaned under the fascist Franco regime. Fans regularly sport banners proclaiming that "Catalonia is not Spain".

Barca has used the idea that it is "more than a club" to cultivate a two-way relationship with its fans. It is owned by its members (*socis* in Catalan), who now number 150,000, rather than by shareholders or foreign tycoons. The management is answerable to an assembly that consists of 2,500 randomly chosen *socis* and the 600 most senior members. The club

supports many sports other than football and runs a popular museum in Barcelona. After a recent win more than a million people turned out to cheer.

Barca's management style chimes in with the thinking of two admired theorists. Boris Groysberg, of Harvard Business School, has warned that companies are too obsessed with hiring stars rather than developing teams. He conducted a fascinating study of successful Wall Street analysts who moved from one firm to another. He discovered that company-switching analysts saw an immediate decline in their performance. For all their swagger, it seems that their success depended as much on their co-workers as their innate talents. Jim Collins, the author of "Good to Great", argues that the secret of long-term corporate success lies in cultivating a distinctive set of values. For all the talk of diversity and globalisation, this usually means promoting from within and putting down deep local roots.

The beautiful name

Barca has also blazed a trail in nurturing its brand-a tough job in the internet age, when gossip is plentiful and trust is scarce. The proportion of brands that consumers trust fell from 52% in 1997 to 22% in 2008, according to Y&R, an advertising agency, and traditional forms of advertising are becoming less effective. To combat this problem, some firms try to involve consumers in developing their brands. Lego, a toy brickmaker, invites Lego-heads to its headquarters to work with its designers. Asda, a supermarket, invites regular shoppers to suggest what it should sell. But so far nobody has gone as far as Barca in giving customers a direct say in big decisions.

Barca has made its share of mistakes. The team's attempt to widen its recruitment net by setting up a soccer academy in Argentina has been abandoned. Traditionalists worry that it is selling its Catalan soul in pursuit of slick commercial deals. And soccer is an unpredictable business. The team went through a bad patch in the early 2000s; another slump could see its fickle foreign fans disappear or, worse, switch their allegiance to Chelsea. That might cause Barca's revenues to plunge. But for the moment the club is on the top of the world: an example not just of sporting prowess but of smart management.

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Pakistan and India

A rivalry that threatens the world

Pakistan's dangerous fondness for jihadis, the Taliban and nuclear weapons is rooted in its fears of India



OUTSIDERS, especially Indians, have expressed dismay ever since Osama bin Laden was killed this month in Abbottabad, a prim military town in Pakistan. Here is a state that both fights, and protects, Islamic fanatics. Even when Pakistanis themselves are the main victims of attack by *jihadis*, the state fails to act.

On May 13th suicide-bombers sent by an al-Qaeda-affiliated group, the Pakistani Taliban, killed 80, mostly young army cadets, in Shabqadar, a town in the north-west. That attack was claimed as retaliation for bin Laden's death, but such strikes have grown dismally common. As America's ambassador in Islamabad, Cameron Munter, puts it, "If you grow vipers in your backyard, you're going to get bitten."

At moments Pakistan sounds ready to co-operate with America against extremists. John Kerry, chairman of the Senate Foreign Relations Committee, whizzed through Kabul and Islamabad this week and claimed, after four hours of talks with General Ashfaq Kayani, Pakistan's army chief, that the troubled bilateral relationship was again "on track". Pakistan will hand over the remains of the stealth helicopter blown up in the Abbottabad raid. And America's secretary of state, Hillary Clinton, will visit in the coming weeks.

More important, America's spies, after a year of lurking by madrassas and in dark corners of towns without telling their Pakistani counterparts what they were up to, will start working again with the Pakistani military spy outfit, the Inter-Services Intelligence directorate (ISI). Any more strikes against "high-value targets", which presumably means Ayman al-Zawahiri, al-Qaeda's deputy leader, or Mullah Omar, boss of the Afghan Taliban, will officially be joint efforts. Almost immediately, on May 17th, Pakistan announced results: the army arrested a Yemeni in Karachi, said to be a senior al-Qaeda operative.

Many Pakistanis, however, cannot see things as Americans do. On Abbottabad, for example, they care little that bin Laden was there, and much more about the ease with which American forces swooped in. A poll a week after the raid of 2,500 people found that only 26% believed bin Laden had been killed. Around half, 49%, reckoned the event had been faked, and nearly as many thought bin Laden, if dead, was anyway a martyr. Around 68% were most bothered that an outsider had violated Pakistan's sovereignty.

The Abbottabad affair was especially galling because the town sits close to the border with the Indian-run bit of Kashmir, supposedly a well-guarded frontier. Ordinary Pakistanis are conditioned to fret that India has still not come to terms with the existence of their country, and may one day simply come strolling in. It is no surprise that a resident in a house across from bin Laden's, describing the raid, said: "We first thought the Indians were invading."

At a joint session of the Pakistani parliament on May 13th, attended by army chiefs, the real concern was India. India's army chief, foolishly, had boasted just after the bin Laden raid that his special forces had the means to do something similar. Pakistan's spy chief, Ahmad Shuja Pasha, told MPs that the Pakistani army had not only picked targets in India for retaliation but had also rehearsed striking them.

The usefulness of jihad

Amid all the threats, MPs did not bother to ask questions about bin Laden. That may have been pride, or it may have reflected Pakistanis' sense that *jihadis* are less snakes in the yard than a practical, if unconventional, means for a weak country to project power against a much bigger one.

Mismatched
2010

	India	Pakistan
GDP, $bn	1,430	175
GDP 2011, % increase on previous year, forecast	8.2	2.8
Population, m	1,200	180
Defence budget, $bn	38.4	5.2
Army, active troops, m	1.1	0.55

Sources: IMF; IISI; National statistics

India's population and its economy are now both eight times bigger than Pakistan's, and growing fast (see table). Whereas Pakistan relies on aid and begs foreigners to equip its army, India, by contrast, races on, is now an aid-giver and has

America eager to be its friend. As a longstanding, stable democracy, it has moral power. It sits on the United Nations Security Council, shares intelligence closely with America and plans to spend tens of billions of dollars a year on defence.

Pakistan's relative insecurities have been intensified over the years by natural disasters, such as huge floods in 2010, and self-inflicted wounds such as frequent military coups. But they are all the more deeply felt because they are not new. The country was born from partition with India in 1947, a bloodbath that killed hundreds of thousands (both Muslims and Hindus) and displaced many millions. That, and Islam, helped forge a sense of nationhood. But the wounds of partition also caused Pakistanis to fear for their existence.



For a weak country, using proxy armies and *jihadis* has often seemed a good idea. Just after partition, late in 1947, fierce Pushtun tribesmen poured into Kashmir to seize territory for Pakistan from India. Where they reached is still, more or less, the territory's line of control (see map). Later, with American help, the then ruler of Pakistan, General Zia al Haq, sent *jihadis* to take on the Soviet invaders in Afghanistan. His eventual successor as dictator, General Pervez Musharraf, recently admitted what everyone knew, that militants had then been sent to stir trouble in Indian-run Kashmir.

Deploying *jihadis* is cheap, easy and somewhat deniable if things go wrong. It occupies men who might otherwise make mischief at home, and may also help foster a sense of national unity in Pakistan, as *jihadis* fight in the name of Islam. But as Ijaz Gilani, a Gallup pollster in Islamabad, points out, national feeling is also fuelled by hostility to India. Many Pakistanis are quick to explain away, or even actively support, *jihadis* who strike even at soft, civilian, targets in India, such as the attack in Mumbai in 2008 when 170 people died.

A trial that started on May 16th in America may test this idea. Prosecutors in Chicago accuse a businessman of Pakistani descent, Tahawwur Hussain Raina, of helping the Mumbai attackers, among whose victims were six Americans. A government witness has already said that an ISI officer, a "Major Iqbal", helped to fund and guide the Mumbai attackers.

If Pakistan's unhealthy tolerance of *jihadi* groups is the result of an obsession with India, what of its disruptive behaviour in Afghanistan? It lets America drive three-quarters of its war supplies from Karachi, and goes along with immensely unpopular drone strikes against extremists in its own tribal areas. Yet it also diverts funds to its Pushtun brethren, the Afghan Taliban, and resists any ground attack on another group connected with al-Qaeda, the Haqqani network (active in Afghanistan, based in Pakistan), though it is said to be pressing them to join Afghan peace talks.

Seen from Kabul, Pakistan's ISI is behind the growing activity of Afghan insurgents. Researchers there totted up 12,244 attacks in the country last year, a more than five-fold increase since 2006. "Those connected to the insurgency say to us that ISI activities have increased [especially] over the past 18 months," reports a well-connected observer. The Pakistanis deny that they are actively helping the Taliban.

They also refuse to accept that they are duplicitous in their dealings with America. Yes, they say, they agreed to back America's war: refusing would have made an enemy of a superpower. But that does not mean they are adopting America's aspirations in Afghanistan. Pakistanis plainly see quite different national interests there-again, largely, because of India.

Where America broadly hopes to clamp down on Islamic extremists, impose some sort of order and find a way to get its soldiers home, Pakistan, by contrast, does not want to see a strong Afghan state-particularly one where ethnic groups such as Tajiks, traditionally friendly to India, tend to predominate in positions of power.

Manmohan Singh, India's prime minister, drove home the point on a rare visit to Kabul on May 13th. In Afghanistan's parliament he made much of India's impressive $1.5 billion aid schemes, which have built roads, set up power lines and fostered ties between the two countries. He promised another $500m as he cheered the emerging "strategic" partnership.

A senior Indian government official says India has "no endgame" in Afghanistan; all it wants is a country that is "moderate" and "stable". But even that makes insecure Pakistanis jumpy. Afghanistan has been hostile to Pakistan for much of its history: opposing, alone, Pakistan's membership of the UN, refusing even now to recognise Pakistan's external borders. Separatists in Pakistan, notably the Baluchis and perhaps even Pushtuns, might also grow more active if war ended next door. Pushtuns are a large minority in Pakistan and the biggest ethnic group in Afghanistan. The Afghan government has never recognised the "Durand line", the Afghan-Pakistan border that the British drove through Pushtun tribal lands, and the idea of an independent "Pushtunistan" has never entirely vanished.

Pakistan fears encirclement by India and its ally. The Pakistanis have long accused India, via Iran and Afghanistan, of arming the Baluchi separatists. Suspicion runs deep. An ISI official in Islamabad spins a theory that Indian road-building in Afghanistan is really a cover for shipping enormous quantities of explosives there for use by terrorists inside Pakistan, including, supposedly, the 2008 bombing of the Marriott hotel in Islamabad.

Pakistan therefore wants influence in Afghanistan for the sake of "strategic depth". That variously means having control of territory to which its leaders, soldiers or even nuclear weapons could move in case of war with India, or simply having close Afghan allies across the border, who can help keep Indian meddling at bay. Either way, Pakistan wants Afghanistan weak, divided, or once more ruled (at least in part) by a pliant Pushtun proxy; though some generals say they are less keen on the Taliban, now they have seen what they are like.

Armed and dangerous

To Indians Pakistan's existential fears are exaggerated, blown up by the army to scare the people. India has never been the aggressor, they point out. Even when India intervened to help split Pakistan in two, in 1971, it only did so late, after seeing mass flows of refugees and atrocities on a horrific scale by the army against civilians in East Pakistan (now Bangladesh).

Instead, say Indians, Pakistanis' own paranoia is the root of their instability. M.J. Akbar, an eloquent Indian journalist and author of a new book on Pakistan, sums up the place as dangerous and fragile, a "toxic jelly state". He blames the army, mostly, for ever more desperate decisions to preserve its dominance. "Pakistan is slipping into a set of contradictions that increasingly make rational behaviour hostage to the need for institutions to survive," he says.

Others, including liberal Pakistanis, add that Pakistan cannot shake itself from military men obsessed with India. "We have become delusional, psychotic, fearing how to protect ourselves from the rest of the world," says one. India's most senior security officials say that Pakistan is still, in essence, a state run by its army. That army, the world's seventh-largest, bleeds the state of about a sixth of all public funds with almost no civilian oversight.

All that is grim enough. Then consider how Pakistan is rapidly expanding its arsenal of nuclear weapons. That programme was born out of the country's humiliating loss of East Pakistan in 1971. Six years earlier, around the time of a previous defeat by India, Zulfiqar Ali Bhutto, then Pakistan's foreign minister, had declared: "If India builds the bomb, we will eat grass or leaves for a thousand years, even go hungry, but we will get one of our own."

Pakistan may now have between 70 and 120 usable nuclear devices-and may be unusually ready to use them. Some in the West believe Pakistan started preparing nuclear-tipped missiles in the midst of the 1999 Kargil war against India, after Pakistan invaded a remote corner of Kashmir.

Nobody doubts that Pakistan, in the midst of its anxiety over India, is trying hard to get more. Its nuclear warheads use an implosion design with a solid core of about 15-20 kilograms of highly enriched uranium. The country produces about 100 kilograms of that a year, but is rapidly expanding its nuclear infrastructure with Chinese help. And with production long-established, the price of adding weapons has fallen to almost nothing. A nuclear physicist in Pakistan, Pervez Hoodbhoy, now suggests that "you can have a working nuke for about $10m, or the cost of a nice big house in Islamabad."

The new push seems, as ever, to be a response to two developments next door. Pakistan was badly spooked by India's deal on civil nuclear power with America, completed in 2008. This not only binds America and India closely; it also lets India buy uranium on international markets, and probably means it will soon build many more reactors. By one panicky Pakistani estimate, India could eventually be making 280 nuclear weapons a year.

The other change is over doctrine and delivery. India has long held a position of "no first use" of nukes. Pakistan, by contrast, with weaker conventional forces, refuses to rule out the option of starting a nuclear war against India, and is now taking steps that could make such first use more likely. Last month it test-fired a new missile, the Hatf IX, with a range of just 60km and specifically designed for war-fighting. Two missiles are carried in tubes on a transporter and can be fired, accurately, at short notice. The warheads are small, low-yielding devices for destroying large tank formations with relatively little explosive damage or radiation beyond the battlefield.

Pakistan's generals say their new tactical weapons will meet a threat from India's Cold Start doctrine, adopted in 2004, that calls for rapid, punitive, though conventional thrusts against Pakistan. But by rolling out tactical nuclear weapons, Pakistan is stirring fears of instability. Previous efforts to reassure observers that terrorists or rogue army officers could not get hold of nukes rested on the fact that warheads and delivery systems were stored separately and were difficult to fire-and that final authority to launch a strike requires "consensus" within the National Command Authority, which includes various ministers and the heads of all three services, and is chaired by the prime minister.

But tactical nuclear weapons deployed close to the battlefield pose new risks. Command-and-control protocols are likely to be looser and more delegated. If field officers retreating in the face of a conventional attack by India were forced to decide between using or losing their nuclear weapons, a border incursion could swiftly escalate into something very much bigger and more lethal.



Mist over Kashmir

Talking, not shooting

Trouble on the border is not a theoretical problem; it is commonplace. Exchanges of fire between Pakistanis and Indians over the border in Kashmir killed an Indian soldier this weekend. This time it did not escalate, in part because the two countries are in the midst of diplomatic efforts. But India's prime minister, Mr Singh, ordered a review by his security chiefs.

Some in India have been trying to ease tensions with Pakistan. Mr Singh, born before partition in territory that is now Pakistan, is personally eager to do so (though others in his government, and hawkish opposition parties, disagree). He tried "cricket diplomacy" this year, inviting his counterpart, Yusuf Raza Gilani, to watch India play Pakistan in the cricket World Cup. He is the driving force on bilateral talks on trade, water and counter-terrorism, which should culminate in the next few months in a meeting of foreign ministers.

Encouragingly, on Pakistan's side, civilians also seem open to talks. It helps, too, that Kashmir has fallen quiet in recent months, though that may be merely seasonal. Nawaz Sharif, the main opposition leader, who as prime minister in 1999 came close to striking a peace deal with India, dared to suggest on May 16th that Pakistan would make progress only when it stopped treating India as its "biggest enemy". As controversially, he called for a cut in public funds for the army.

Missing map? Sadly, India censors maps that show the current effective border, insisting instead that only its full territorial claims be shown. It is more intolerant on this issue than either China or Pakistan. Indian readers will therefore probably be deprived of the map in the print edition of this briefing. Unlike their government, we think our Indian readers can face political reality. Those who want to see an accurate depiction of the various claims do so using our interactive map.

Yet suspicion lingers. General Kayani told a diplomat in Islamabad recently that he backs peace efforts with India, but he has done little about it. And the army has an interest in maintaining at least the illusion of an Indian threat to protect its bloated budget and special privileges.

In private, too, many remain gloomy. Talks, let alone a deal, may simply spur the terrorists to another atrocity. General Mahmud Ali Durrani, a former ambassador to America who supports peace talks, feels that the army's insecurity is too big a problem. "I don't think we are flying. The security elements are not so enamoured by the idea. They feel India never accepted Pakistan, and given half a chance [the Indians] would undo it."

See our videographic on the history of the Kashmir conflict

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Correction: Afghanistan

Correction: In our briefing on Afghanistan last week, we said that the governor of Khost province was often absent and feared assassination. This should have been the governor of Sabari district. Our apologies.

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Japan's post-quake economy

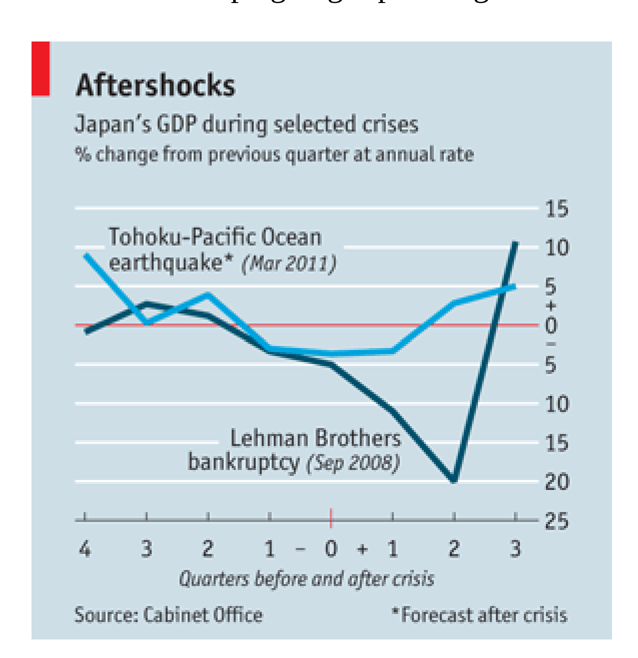
Casting about for a future

The Japanese economy is recovering faster than expected from disaster. Can broader reform come quickly too?



ON MAY 13th Yoshihiro Murai, governor of the tsunami-stricken prefecture of Miyagi, received an angry petition from the bosses of a co-operative that has long controlled some of the richest fishing grounds off the coast of north-eastern Japan. Their slogan: "We won't let fishermen be turned into salarymen." They were responding to his proposal that, in return for money to rebuild their shattered livelihoods, they should let private firms fish in Miyagi's waters. Mr Murai, a former pilot, was undeterred by their protests, noting that with most of them over 60, the industry risked dying out anyway. Later he told *The Economist* that deregulation of Miyagi's coastline should serve as a model for reform nationwide. "There's always pain when there's revolution," he said.

That resolve has become more common since the earthquake and tsunami of March 11th and the subsequent nuclear crisis jolted Japanese citizens' faith in their country and those who run it. The question now is whether the reformist zeal will stop at the rebuilding of Tohoku, the devastated region in the north-east, or go further, to solve the problems of overcapacity, high public debt and deflation that were plaguing Japan long before the disaster.



The speed of the clear-up is raising hopes that the economy will prove resilient after the initial shock. Industrial production plunged by 15.5% between February and March, a far steeper drop than the previous monthly record of 8.6%, in February 2009 not long after Lehman Brothers' bankruptcy. Figures this week showed that GDP fell at an annual rate of 3.7% in the first quarter compared with the last three months of 2010, pushing the economy technically back into recession. Moreover, the decline in output in late 2010 was 3% rather than the previous estimate of 1.3%. But private economists are forecasting a pick-up in the second half of the year, which would be a big improvement on what happened after Lehman (see chart).

Recovery in stricken Tohoku has been quicker than many had expected. Nine out of ten manufacturing firms damaged by the disaster hope to restore output to pre-crisis levels by mid-summer, the government says. After a heroic effort by Renesas Electronics, a quake-damaged chip company whose microcontrollers are vital for running many cars, hard-hit Toyota is now expecting to be back to normal production by the autumn (see article).

Electricity supply in Tokyo, thrown into chaos after the Fukushima Dai-ichi nuclear plant and other generators were knocked out by the quake and tsunami, is also being restored, which will further boost the revival. There have been no blackouts since March 29th. Tokyo Electric Power (TEPCO), the utility that owns the Fukushima plant, expects peak capacity to reach 55-56 gigawatts this summer, enough for a small surplus if it is not too hot.

Beyond Tokyo, doubts linger over possible losses of power during the summer because only 19 of the country's 54 nuclear reactors are in service. Many of those closed for routine maintenance require approval from local governors to be restarted, but with the Fukushima accident still so fresh in people's minds, it is touch and go whether they will get it. However, companies and households have shown a willingness to curb demand during peak hours, which the government hopes will ward off blackouts.

Another bright spot is that consumers may be perking up. Although there was a record plunge in confidence in April, the "Golden Week" holiday in early May produced an unexpected flurry of tourism. "It is the first time I have been happy in a traffic jam," quipped Masaaki Kanno, chief economist at J.P. Morgan in Tokyo.

But if the private sector is putting its back into reconstruction, the public sector is being less heroic. The government has passed a Â¥4 trillion ($50 billion) supplementary budget for cleaning up the debris and other urgent tasks. But there is a political tug-of-war over a proposal to spend an extra Â¥10 trillion on reconstructing and revitalising Tohoku, a lagging region even before the disaster. That public spending will be vital to ensure a strong rebound in the national economy.

Even if Naoto Kan's government, which suffers from low poll ratings and divisions in parliament, can prevail on the extra budget, there are doubts about whether his leadership is strong enough to shake the economy out of two decades of low growth and rising debt. On May 17th the prime minister postponed a decision on whether to join talks to form a free-trade area called the Trans-Pacific Partnership. That was aimed at reducing the loss of manufacturing jobs to Asia, which is hollowing out Japan's industrial base and sapping tax revenues.

Another worry is whether Mr Kan can push through a reform of the fiscal system to help ease strains on the public finances. Polls show that the appetite for raising the consumption tax to help share the burden of reconstruction, which was strong shortly after the crisis, is now waning.

Despite these doubts about the politics of reform, Mr Murai is not alone in calling for a decisive break with the past. Within the Ministry of Economy, Trade and Industry (METI), revised growth plans are being prepared that an official says would enable small power-producers to increase their contribution to the grid, encourage more renewable energy and introduce smart metering to stimulate conservation. Officials believe that a focus on green technologies could give new impetus to Japan's economy. Some think TEPCO should be put through bankruptcy while at the same time Tokyo's energy market should be opened to more competition. The government has not gone that far but on May 18th Mr Kan hinted that the monopolistic power of electrical utilities might be reviewed, which could lead to the separation of power generation and distribution.

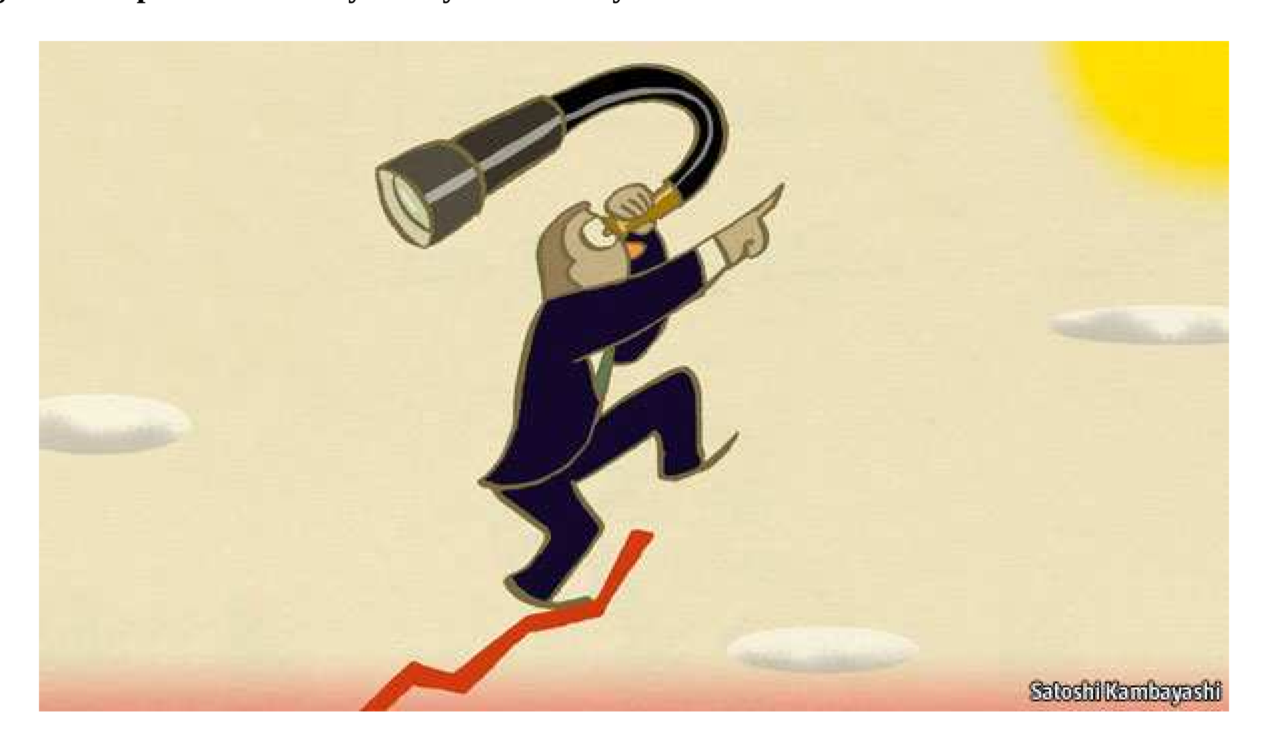
There is, says one METI official, a change of mood. "Before March 11th the goal of Japan was not that clear. Now it's much clearer." At present most efforts are being focused on recovering from the disaster. But there is reason to hope that energy may be directed to finding a new way forward for an economy that grows mainly because of foreign trade, generates insufficient demand at home and has been unable to find a productive use for the oodles of spare cash that sits on private balance-sheets.

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Buttonwood

The missing link

Economic growth helps investors only if they are clairvoyant



IT MAY seem obvious that faster economic growth should translate into higher equity returns. So it was quite an upset when academics found some years ago that this had not been the case in advanced countries over the 20th century*. A subsequent paperâ€ discovered that the story was similar for developing economies as well.

These findings are awkward for emerging-market enthusiasts, who usually cite the superior growth prospects of such countries as the reason to invest in them. The counter-attack has duly been led by Jim O'Neill of Goldman Sachs Asset Management, who as a strategist coined the wildly successful BRIC acronym for the big developing economies of Brazil, Russia, India and China. Yet the surprise is not only that the response has been so long in coming but that the case it makes is so limited.

The Goldman paper admits that there is no evidence that equity returns for any given year are correlated with GDP growth in that same year. But it says that "equity markets are a lead indicator of GDP growth and react strongly to expectations about the future."

This conclusion is hardly new. Stockmarket movements are a standard component of economic lead indicators. But this link is of little use to investors, who are looking instead for a lead indicator for equity performance.

Goldman argues that investors can take advantage of upgrades in economic-growth forecasts, which signal better prospective returns especially in the developing world. But its evidence for this claim is quite limited (just ten years of data for Brazil and Mexico, for example). If one takes the American market over the past 40 years then there is a negative relationship between changes in growth forecasts and equity returns.

This raises another doubt about the Goldman analysis. It is rather dismissive of the long-term stockmarket returns compiled by Elroy Dimson, Paul Marsh and Mike Staunton of the London Business School (LBS), who published their findings in 2005. "Averaging over a century fails to account for potentially important structural breaks and changes in the way economies and markets operate," the report says somewhat sniffily. But the data are the data; it is not scientific to leave out large chunks of evidence.

But what if superior GDP growth showed up in stockmarket returns not immediately but over a prolonged period? The LBS academics tackle this issue in their 2010 work, the "Credit Suisse Global Investment Returns Yearbook". They take the records of 83 countries from 1972 to 2009 (the most comprehensive set available) and rank them by GDP growth over the previous five years. Investing each year in the countries with the highest economic growth over the preceding five years earned an annual return of 18.4%, but investing in the lowest-growth countries returned 25.1%.

The interesting question is why this phenomenon should occur. One explanation is that investors pile into the stockmarkets of high-growth countries until they become overvalued. That herd-like behaviour makes their subsequent returns disappointing.

Another possibility is that economic growth does not always get captured by the stockmarket. The fastest-growing companies are often unquoted: in emerging markets, for example, many businesses are family-owned or controlled by the state. Even when businesses are quoted, their growth may be financed by additional equity issuance that does not boost the returns of existing shareholders. One paperâ€¡ suggested that this effect could reduce returns by as much as two percentage points a year.

Although analysts often forecast annual profits growth of 10% or more, the LBS academics found that dividends failed to keep pace with GDP growth in every developed country (bar one) they studied between 1900 and 2009. Re-invested dividends are a vital component of long-term equity returns.

If investors could forecast future economic growth, then Goldman would be right: superior returns would be achieved. But there is precious little sign that such clairvoyance exists. And the evidence that past economic growth is of no help remains pretty compelling.

* "Economic Growth and Global Investment Returns", by Elroy Dimson, Paul Marsh and Mike Staunton of the LBS, November 2005. See also "Economic Growth and Equity Returns", by Jay Ritter of the University of Florida (December 2003).
â€ "Growth and Returns in Emerging Markets", by Peter Blair Henry and Prakash Kannan of Stanford University, June 2006.
â€¡ "Earnings Growth: The Two Percent Dilution", by William Bernstein and Robert Arnott, Financial Analysts Journal. September/October 2003.

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Indian stockmarkets

Barbarian near the Gate

Asia's oldest stock exchange fights for survival



But there's a rival bull up the road

JAWAHARLAL NEHRU, India's first prime minister, decried those "who sit in stock exchanges, shout at one another and think themselves civilised." Today the barbarians aren't confined to the bourses. In Mumbai one specimen can be found in a cafe near the Gateway of India, a landmark, wearing flip-flops and in the manner of a bored zillionaire yapping with his broker on his mobile phone while tapping a laptop alive with share prices. He is not alone. IIFL, a big Indian brokerage firm, has more than 1m customers and operates in over 500 cities and towns. Some $30 billion of equities are now traded in India in a typical day, either through cash deals in shares or by using derivatives. The majority of this activity is by foreigners, rich individuals and retail investors.

That all suggests a bonanza for stock exchanges. Yet a stroll a few blocks away to the country's once-dominant Bombay Stock Exchange (BSE), established in 1875, shows the truth is stranger. The BSE's 1970s tower looks tired inside-on the walls of the warren-like corridors there are no-spitting signs-but not as exhausted as the bourse's market share, which has slipped to about 25% in cash trading and below 5% if derivatives are included too. Its lunch has been stolen by the National Stock Exchange (NSE), established in the 1990s, brilliantly run and unencumbered by the BSE's clubby traditions. From a glass and steel campus in the north of Mumbai, its boss, Ravi Narain, insists that the two firms' rivalry is of the Coke and Pepsi kind. But in truth many financial types doubt the older exchange will survive.

The NSE's rise is mainly explained by its early mastery of derivatives contracts on individual stocks and equity indices. Barely existing a decade ago, derivatives now account for 85% of equity trading in India. There are some technical explanations for this convulsion, but most brokers reckon lower trading costs and the animal spirits of Indian citizens have much to do with it. In contrast to many countries there are few safeguards to keep out retail investors. Unleashed, Gujarat's grannies are as mad for call options as Wall Street's finest.

Madhu Kannan, the BSE's newish boss, is defiant. "We don't want to become a museum," he says. Winning back traders is notoriously hard, but the BSE has at least updated its technology and products, which, says one brokerage boss, are now "damn good". When listing, companies still tend to choose the BSE and ring the bell there. "The theatre was better," explains one company boss, though he adds that like all firms he made sure his shares were listed on the NSE too, where the real action is. The BSE has enough cash on its balance-sheet for a long fight but the risk is that its brand atrophies fast. Another brokerage chief says that whereas "the older generation still thinks in terms of the Sensex", the index run by the BSE, "the younger people think and talk about the Nifty", the NSE's rival benchmark.

Could Asia's oldest exchange go down? Mr Kannan's best hope may be a disruptive event. The government and regulators are pondering allowing other exchanges, such as MCX-SX, a currency outfit, to trade equities. That could dislodge market share from the NSE. And if the authorities get their act together, exchanges may be allowed to list their own shares. That would give Mr Kannan a mandate to push through more painful changes at the BSE, including a big cost-cutting exercise, and a mechanism with which to merge it eventually with another outfit. With luck he will succeed. Mumbai could do with fewer latte-sipping day traders, but not without its original stock exchange.

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Stock exchanges

Maple fig-leaves

The difficult choice between nationalism and monopoly



FOR those who believe that exchanges are strategic national assets to be protected from foreign marauders, the past week has been a mixed bag. Driven in part by worries that Canada would lose control of its markets if TMX were to merge with the London Stock Exchange, the country's largest banks and pension funds launched a rival bid for the operator of the Toronto bourse. Tellingly branded "Maple", the consortium pledges to ensure the "ongoing integrity" of Canada's capital markets by merging TMX with the banks' own trading platform and a clearing house.

South of the border, however, the idea of a national champion is dead. NASDAQ and InterContinental Exchange have ended their attempt to wrest NYSE Euronext away from Germany's Deutsche Borse after regulators threatened to block the deal, which would create a share-listing monopoly.

Financial protectionism has grown since the credit crisis as governments re-regulate financial firms and markets. But the level of nationalism varies. In the merger-obsessed world of exchanges, America and Britain still broadly welcome foreign bidders. In smaller markets, where officials fret about business migrating to bigger financial centres, there is more flag-waving. Canada's provincial politicians have applauded Maple's bid. In a recent poll, most Canadians agreed that TMX was a "strategic" asset. This mirrors the mood in Australia, whose government blocked the proposed merger between ASX and Singapore's exchange in April.

Canada and Australia weathered the crisis well partly because their financial systems were built for stability more than dynamism. Both, for instance, have banking oligopolies that have long accepted tough regulation as a cost of their market power. With exchanges, too, they seem willing to contemplate sacrificing some competition for perceived solidity.

This can pose a dilemma. Canada's federal government and provincial securities commissions must choose between a TMX that is largely foreign-owned and an all-Canadian offer that could increase monopoly power and thus raise costs for investors. If the Maple bid succeeds, the banks would be key members of a group controlling more than 80% of share-trading and a clearing house that until now was run as a not-for-profit utility. Luc Bertrand of National Bank of Canada points out that no investor would own more than 10% of the new entity. But some are uneasy that the banks and pension funds would hold a combined 60%.

The arguments for strategic status, though politically appealing, are questionable. The nationality of an exchange's owners has little or no economic impact on the financial centre in which it is based. True, Paris did see jobs migrate to New York and London after NYSE's takeover of Euronext in 2007, but the centre of gravity was moving to bigger centres anyway. It is hard to see Deutsche Borse's shareholders, many of which are American, advocating an exodus to Frankfurt.

The public-policy case for keeping mergers domestic may be flimsy but the business rationale is stronger. The revenue synergies of cross-border deals are much smaller than the cost synergies of home-market deals. In the former, most of the

benefits have flowed to hedge funds and the exchanges' managements. Moreover, investors can trade any share or derivative cost-effectively through a local exchange, using globally active brokers and so-called Direct Market Access services. That may be why CME Group, the biggest and savviest derivatives-exchange operator, has always stuck to domestic takeovers. As one consultant puts it: "Technology has made the idea of a global exchange questionable rather than compelling."

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Petri-dish economies: Kenya

Revving up the pace

The last in our series asks how Kenya can boost its growth rate



KENYA has been on a rollercoaster. In the first few years of the 21st century its economy, like many in Africa, grew faster than at practically any point during the previous 30 years. But in 2008 and 2009 growth slumped, first because of widespread tribal violence following a disputed presidential election and then as the global financial crisis took its toll. A new constitution cemented a (fragile) political stability, and output growth picked up to 5.6% in 2010, faster than the region's average. Forecasts for 2011 expect growth of around 5%.

The trouble is that 5% is not good enough. Kenya is on the threshold of a demographic transition, with a young, fast-urbanising population. Gainfully employed, its millions of young adults could fuel far faster growth rates. Left out of work or underemployed in the informal sector and subsistence farming, they are a political tinderbox.

But how to boost growth? Unlike many of Africa's frothiest economies, Kenya does not have a rich bounty of minerals or oil to export. Indeed it is being hit by higher food and fuel costs. So far, the growth gains have come from macroeconomic stability and deregulation. Unfortunately, Kenya's macro policies have been starting to look a little wobbly. Inflation has accelerated while the budget deficit is running above 6% of GDP. The recent retreat in commodity prices will help, but Kenya's top short-term priority will be to keep a grip on the public finances.

That alone will not bring the required dynamism. To accelerate growth sustainably, Kenya needs higher investment rates and faster improvements in productivity. One often mentioned route is the East Asian model of export-led manufacturing. Kenya has the right geography-a coastal location with a quick sea route to Europe as well as reasonable proximity to India and other fast-growing Asian markets.

"Vision 2030", the government's strategic development plan, sees the country becoming a manufacturing hub. There have been some successes. Thanks to a preferential trade agreement with America, textile exports have soared. The trouble is that infrastructure, especially at the port in Mombasa, is still a mess. The power supply is unreliable, corruption is rife and labour costs, relative to workers' productivity, are quite high. These shortcomings will make it hard for Kenya to become a big centre of just-in-time delivery soon.

A more promising short-term route is regional trade integration. Kenya is the biggest economy in the East African Community (EAC), which also includes Burundi, Rwanda, Tanzania and Uganda. With a market of 130m people and a combined GDP of more than $70 billion, the EAC is no minnow. Since 2010 all trade between its members has been tariff-free. Labour mobility is imminent. Some 45% of Kenya's trade is already with other African countries, a share that is growing fast. From cement makers to vegetable-oil manufacturers, Kenya's big industrial firms are expanding across the region. But infrastructure and red tape are a curse: it takes 24 working days to get a container from Mombasa to Kigali in Rwanda.

Judging by the past few years, manufacturing is unlikely to be the main short-term engine of Kenyan growth, even if these infrastructure problems can be overcome. While manufacturing's share of the economy has stagnated over the past decade, that of services has soared, led by information and communications technology, which has been growing at a whopping 20% a year. In the debate about whether poor countries can leap-frog straight to services-led growth (see Economics focus), Kenya is often cited as an example.

That is largely thanks to its impressive mobile-money revolution. Kenya has one of the highest rates of mobile-phone penetration in Africa, and, dominated by M-PESA, by far the biggest network of mobile-phone-based money transfer. According to the World Bank, Kenyans transferred some $7 billion, the equivalent of 20% of GDP, via their mobile phones in 2010. The explosive growth of mobile money has sharply reduced the costs of financial transactions. This should boost saving and investment as banks begin to offer fully fledged mobile-based banking services. It should also prompt broader productivity gains, as mobile-money agents become conduits for all kinds of commerce and information. One of Kenya's biggest fertiliser firms, for instance, plans to sell small fertiliser pellets through the M-PESA platform.

The transformative effect of cheap bandwidth will be felt well beyond mobile money. Thanks to robust competition, and the recent arrival of several submarine cables, Kenya has seen a collapse in the price and increase in the speed of data connectivity. All manner of services, from independent television stations to one of the region's biggest call-centres, are flourishing as a result. As Wolfgang Fengler of the World Bank puts it, connectivity is beginning to "reshape Kenya's whole economy". The big question is whether that will be enough.

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Gambling

Poker-faced

A new study argues that poker is a game of skill, not chance.

IS POKER "a gambling game, pure and simple", as a judge in Louisiana called it in a much-cited 1910 judgment? Or is it a game in which skill plays an important role? The answer may help determine whether online poker games should be covered by a law that prohibits Americans from gambling over the web.

So far, judges have tended to agree with the 1910 precedent. Future rulings will determine the prospects of a $6 billion industry. Yet there has been very little research into this subject, in part because of the paucity of data.

A new study by an economist, Steve Levitt, author of "Freakonomics", and Thomas Miles, his Chicago University colleague, uses data on those who took part in the 2010 World Series of Poker, an annual contest in Las Vegas. Last year it attracted over 32,000 players and gave out more than $185m in prize money. Because the tournament is open to anyone who pays the entry fee, its participants have varying levels of experience and differing records of success or failure.

Messrs Levitt and Miles divided participants into two groups. The first included those who, based on lists of the top players in 2009 and the results of previous tournaments, could be thought of as "high-skilled"; the second was everyone else. If poker were truly a game of luck, then the winnings of the 12% of entrants marked as specially gifted ought not to have differed significantly from those made by the rest.

But the opposite proved to be true. Those who had done well before did well in 2010, too. Whereas ordinary players made a loss of 15.6%, the skilled made a return on investment of 30.5%, suggesting that poker is after all a game of skill. The economists say that similar tests of persistence in returns have also been used to detect whether mutual-fund managers have genuine expertise. In contrast to the case of poker, they point out, those tests have tended to find "little evidence of skill in this domain".

Banks in central Europe

A three-horse race

Which bank will gain most from a regional recovery?

Near abroad

Selected banks' operations in central and eastern Europe, rank in each country by size of assets
Q3 2010

	UniCredit	Raiffeisen Bank International	Erste
Bulgaria	1	4	*na*
Croatia	1	4	3
Czech Republic	4	5	2
Kazakhstan	5	*na*	*na*
Poland	2	*na*	*na*
Romania	5	7	1
Serbia	4	3	*na*
Slovakia	5	3	1
Ukraine	5	4	*na*

Source: UniCredit CEE Strategic Analysis

HERBERT STEPIC could qualify as the grand old man of central European banking, and not just because of his avuncular beard: at Austria's Raiffeisen Bank (now RBI) he has been the face of its foreign business since the 1970s. RBI's subsidiaries now range over 16 former communist countries including Russia and last year yielded around euro930m ($1.3 billion) in pre-tax profits. He is bullish about the potential for banking in the region, having just bought Polbank, a Polish retail bank, which he says fills "the last gap" in his diversified portfolio.

Only UniCredit of Italy has a comparable spread, if its banks in the Baltic states and Turkey are included. UniCredit calculates that, by assets, it is the biggest regional player. Erste Bank, which is Austrian like RBI, has more concentrated market power. Through its subsidiaries it has around a quarter of the retail markets in the Czech Republic, Slovakia and Romania.

The region is undoubtedly promising. For 2011, RBI predicts GDP growth of 3.9%, more than double the euro area's 1.8%. Each group insists it is well placed to profit from the upswing. UniCredit points to its exposure to Russia, Turkey and Poland, which it says combine size with low banking-sector volatility. The trio accounts for 57% of the Italian bank's regional revenues.

A handful of other foreign banks have a presence in one or two central European countries, but they lack a grand regional strategy. Intesa San Paolo of Italy, for example, owns the biggest bank in Serbia and the second-biggest in Croatia and Slovakia. KBC, a Belgian banking and insurance group, owns the biggest bank in the Czech Republic and the second-biggest in Hungary. It is expected to hang on to those but is planning to sell its banking interests in Russia, Serbia and Slovenia.

Two decades after the fall of the Berlin Wall, Erste, RBI and UniCredit are benefiting from their early commitment. Each has been led by a man with a zest for the place. In Austria, Andreas Treichl, still head of Erste, and Mr Stepic at RBI acquired banks early on in neighbouring countries and never looked back. Alessandro Profumo, then head of UniCredit, was early into Poland and later bought Germany's HypoVereinsbank, which owned Bank Austria Creditanstalt, the market leader.

These men had the foresight, during the global banking crisis, to keep their banks engaged in the region, with a little help from their home governments, the European Commission and the European Bank for Reconstruction and Development. Together they developed a voluntary pact known as the Vienna Initiative, to keep money flowing in the European Union's eastern states. It is paying dividends today.

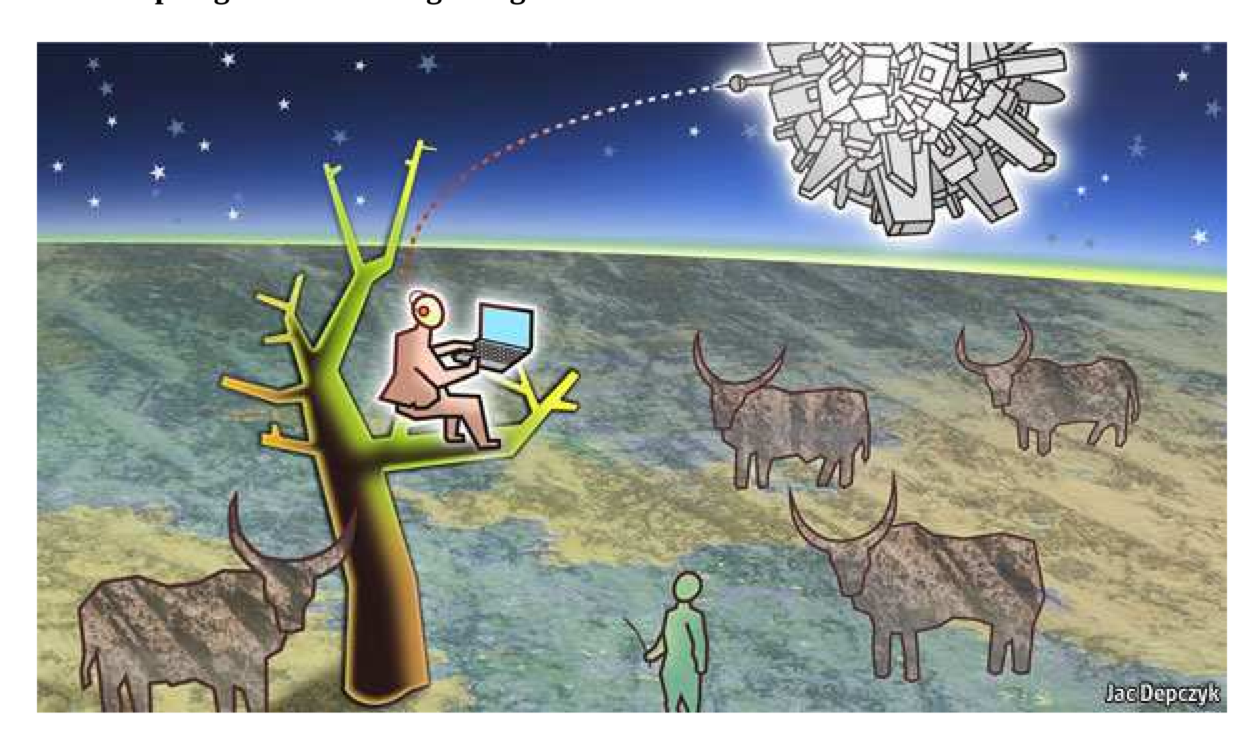
There are some clouds. The recoveries in Hungary and Romania may falter and the Polish economy could overheat. Mr Stepic reckons the biggest irritant is bank windfall taxes imposed by Austria and Hungary, based on balance-sheet size. Other countries will follow, perhaps with performance-based levies. But old hands like Mr Stepic seem to relish an obstacle race.

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Economics focus

The service elevator

Can poor countries leapfrog manufacturing and grow rich on services?



INDIA'S services revolution has dazzled businesses in the rich world, turning Indian companies into global competitors and backwater cities such as Hyderabad into affluent, sophisticated technology centres. Yet economists have been less star-struck, clinging to the received wisdom that has prevailed since the industrial revolution: modernisation runs from agriculture through manufacturing and only later to services. Now some have broken ranks.

The logic supporting the conventional path towards an advanced economy is straightforward. Development typically involves moving workers from low-productivity activities such as subsistence farming to high-productivity sectors. That points to a shift into manufacturing because it lends itself to specialisation and economies of scale, both essential for rising output per worker. As first Japan, then Taiwan and South Korea, and now China have demonstrated, manufacturing can also accelerate development because its output can be exported to rich countries.

Services, in contrast, appear to be a graveyard for productivity. Because a haircut or a restaurant meal has to be delivered in person, there is almost no potential to exploit economies of scale and to export. People consume more services not when technological advance lowers their price but when they have reached a level of affluence that satisfies most of their other needs. Indeed William Baumol famously argued in the 1960s that as countries grew richer and their citizens became keener on buying services, their productivity growth would inevitably slow.

That conventional wisdom is now under fire, in a book edited by Ejaz Ghani of the World Bank and a related article he wrote with Homi Kharas of the Brookings Institution and Arti Grover also of the World Bank on the VoxEU website. The authors argue that technology and outsourcing are enabling services to overcome their former handicaps. Traditional services such as trade, hotels, restaurants and public administration remain largely bound by the old constraints. But modern services, such as software development, call centres and outsourced business processes (from insurance claims to transcribing medical records), use skilled workers, exploit economies of scale and can be exported. In other words, they are just like manufacturing. If that is the case, then poor countries should be able to go straight from agriculture to services, leapfrogging manufacturing.

And that is precisely what seems to be happening. India may be the most prominent example but it is far from being the only pathfinder. Pakistan, Sri Lanka and Nepal have imitated India, albeit less spectacularly. In poor countries as a whole, services have contributed more to growth since 1980 than has industry. Productivity growth in services has also outpaced that of industry in India, Pakistan and Sri Lanka. In all three, the level of productivity (measured at purchasing-power parities) is higher in services than in industry. In Nepal, productivity is three times higher in services. The opposite pattern prevails in East Asia. As Mr Ghani writes, "South Asia resembles the growth patterns of Ireland and Norway, rather than that of China and Malaysia."

Underlining their role as an engine for, rather than product of, development, exports have swelled from roughly 6% of services output in poor countries in 1985 to almost 10% in 2005. Burundi, Swaziland and Rwanda have all recorded growth of more than 25% a year in services exports between 1995 and 2008. Kenya exports professional services such as accounting to its neighbours.

Services offer several advantages over manufacturing. They can more readily employ women and are less likely to despoil the environment. Located in big cities, they accelerate urbanisation. Modern services are arguably less vulnerable to protectionism than either traditional services, such as lawyers, or goods, both of which require physical entry to the foreign market.

Services, however, may not be the answer for all countries. South Asia benefited from a good deal of luck. India's leading software exporters were founded by engineers educated in America who had returned home. The prevalence of English speakers helps to sell services in America. Many other developing countries lack these advantages.

Don't skip on jobs

Most problematic of all, modern services require skilled workers, not the unskilled type that poor countries have in abundance. In South Asia, service workers typically have one to three more years of education than industry workers. In modern services, school grades or a university degree are often necessary. The flip side of their high productivity is that modern services employ relatively few people. Just 2m of India's population of 1.2 billion work in information technology; in the rest of South Asia, only 100,000 do. That is one reason why India is still keen to promote manufacturing, which is also booming.

Indeed, for many countries, the success of services is an indictment of their failure in manufacturing. In India and Sri Lanka, restrictive labour laws have hamstrung the emergence of a more competitive manufacturing base. In contrast India helped its information-technology sector by declaring it an essential industry and lifting the prohibition on operating around the clock in some states. In South Asia services have benefited from investment in telecoms infrastructure, as measured by the number of phone lines and personal computers per 100 people, whereas manufacturing is held back by a shortage of paved roads.

This suggests that for countries that avoid those problems the conventional wisdom is still right: manufacturing holds the most promise for millions of reasonably well-paying jobs. For those not so lucky, at least there's an alternative.

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Alternative medicine

Think yourself better

Alternative medical treatments rarely work. But the placebo effect they induce sometimes does



ON MAY 29th Edzard Ernst, the world's first professor of complementary medicine, will step down after 18 years in his post at the Peninsula Medical School, in south-west England. Despite his job title (and the initial hopes of some purveyors of non-mainstream treatments), Dr Ernst is no breathless promoter of snake oil. Instead, he and his research group have pioneered the rigorous study of everything from acupuncture and crystal healing to Reiki channelling and herbal remedies.

Alternative medicine is big business. Since it is largely unregulated, reliable statistics are hard to come by. The market in Britain alone, however, is believed to be worth around pound210m ($340m), with one in five adults thought to be

consumers, and some treatments (particularly homeopathy) available from the National Health Service. Around the world, according to an estimate made in 2008, the industry's value is about $60 billion.

Over the years Dr Ernst and his group have run clinical trials and published over 160 meta-analyses of other studies. (Meta-analysis is a statistical technique for extracting information from lots of small trials that are not, by themselves, statistically reliable.) His findings are stark. According to his "Guide to Complementary and Alternative Medicine", around 95% of the treatments he and his colleagues examined-in fields as diverse as acupuncture, herbal medicine, homeopathy and reflexology-are statistically indistinguishable from placebo treatments. In only 5% of cases was there either a clear benefit above and beyond a placebo (there is, for instance, evidence suggesting that St John's Wort, a herbal remedy, can help with mild depression), or even just a hint that something interesting was happening to suggest that further research might be warranted.

It was, at times, a lonely experience. Money was hard to come by. Practitioners of alternative medicine became increasingly reluctant to co-operate as the negative results piled up (a row in 2005 with an alternative-medicine lobby group founded by Prince Charles did not help), while traditional medical-research bodies saw investigations into things like Ayurvedic healing as a waste of time.

Yet Dr Ernst believes his work helps address a serious public-health problem. He points out that conventional medicines must be shown to be both safe and efficacious before they can be licensed for sale. That is rarely true of alternative treatments, which rely on a mixture of appeals to tradition and to the "natural" wholesomeness of their products to reassure consumers. That explains why, for instance, some homeopaths can market treatments for malaria, despite a lack of evidence to suggest that such treatments work, or why some chiropractors can claim to cure infertility.

Despite this lack of evidence, and despite the possibility that some alternative practitioners may be harming their patients (either directly, or by convincing them to forgo more conventional treatments for their ailments), Dr Ernst also believes there is something that conventional doctors can usefully learn from the chiropractors, homeopaths and Ascended Masters. This is the therapeutic value of the placebo effect, one of the strangest and slipperiest phenomena in medicine.

Mind and body

A placebo is a sham medical treatment-a pharmacologically inert sugar pill, perhaps, or a piece of pretend surgery. Its main scientific use at the moment is in clinical trials as a baseline for comparison with another treatment. But just because the medicine is not real does not mean it doesn't work. That is precisely the point of using it in trials: researchers have known for years that comparing treatment against no treatment at all will give a misleading result.

Giving pretend painkillers, for instance, can reduce the amount of pain a patient experiences. A study carried out in 2002 suggested that fake surgery for arthritis in the knee provides similar benefits to the real thing. And the effects can be harmful as well as helpful. Patients taking fake opiates after having been prescribed the real thing may experience the shallow breathing that is a side-effect of the real drugs.

Besides being benchmarks, placebos are a topic of research in their own right. On May 16th the Royal Society, the world's oldest scientific academy, published a volume of its *Philosophical Transactions* devoted to the field.

One conclusion emerging from the research, says Irving Kirsch, a professor at Harvard Medical School who wrote the preface to the volume, is that the effect is strongest for those disorders that are predominantly mental and subjective, a conclusion backed by a meta-analysis of placebo studies that was carried out in 2010 by researchers at the Cochrane Collaboration, an organisation that reviews evidence for medical treatments. In the case of depression, says Dr Kirsch, giving patients placebo pills can produce very nearly the same effect as dosing them with the latest antidepressant medicines.

Pain is another nerve-related symptom susceptible to treatment by placebo. Here, patients' expectations influence the potency of the effect. Telling someone that you are giving him morphine provides more pain relief than saying you are dosing him with aspirin-even when both pills actually contain nothing more than sugar. Neuro-imaging shows that this deception stimulates the production of naturally occurring painkilling chemicals in the brain. A paper in *Philosophical Transactions* by Karin Meissner of Ludwig-Maximilians University in Munich concludes that placebo treatments are also able to affect the autonomic nervous system, which controls unconscious functions such as heartbeat, blood pressure, digestion and the like. Drama is important, too. Placebo injections are more effective than placebo pills, and neither is as potent as sham surgery. And the more positive a doctor is when telling a patient about the placebo he is prescribing, the more likely it is to do that patient good.

Despite the power of placebos, many conventional doctors are leery of prescribing them. They worry that to do so is to deceive their patients. Yet perhaps the most fascinating results in placebo research-most recently examined by Ted Kaptchuk and his colleagues at Harvard Medical School, in the context of irritable-bowel syndrome-is that the effect may persist even if patients are told that they are getting placebo treatments.

Unlike their conventional counterparts, practitioners of alternative medicine often excel at harnessing the placebo effect, says Dr Ernst. They offer long, relaxed consultations with their customers (exactly the sort of "good bedside manner" that harried modern doctors struggle to provide). And they believe passionately in their treatments, which are often delivered with great and reassuring ceremony. That alone can be enough to do good, even though the magnets, crystals and ultra-dilute solutions applied to the patients are, by themselves, completely useless.

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Three-dimensional printing

An image of the future

One of the biggest manufacturers in the world gives 3D printing a go



Waiting for a new print edition

ULTRASOUND scanners are used for tasks as diverse as examining unborn babies and searching for cracks in the fabric of aircraft. They work by sending out pulses of high-frequency sound and then interpreting the reflections as images. To do all this, though, you need a device called a transducer.

Transducers are made from arrays of tiny piezoelectric structures that convert electrical signals into ultrasound waves by vibrating at an appropriate frequency. Their shape focuses the waves so that they penetrate the object being scanned. The waves are then reflected back from areas where there is a change in density and on their return the transducer works in reverse, producing a signal which the scanner can process into a digital image.

To make a transducer by painstakingly micro-machining a brittle block of ceramic material can take many hours of work, though. As a result, even as the size and cost of the console that controls the scanner has fallen with advances in

microelectronics (some are now small enough to fit in a doctor's pocket and cost a few hundred dollars), the cost of making the probe itself remains stubbornly high-as much as ten times that of the console.

At least, it does if you use traditional "subtractive" manufacturing techniques like cutting and drilling. However GE, a large American conglomerate, is now proposing to make ultrasound transducers by "additive" manufacturing-or three-dimensional printing, as it is also known. A new laboratory at the firm's research centre in Niskayuna, New York, is taking a hard-headed look at the technique, which some see as a fad and others as the future, and working out which products might be made more efficiently by addition rather than subtraction.

Ultrasound transducers were an early pick both because of the complicated geometry needed to focus the sound waves and because ceramics are harder than metals to cut and drill accurately. But they are easy to print.

The GE process for making a transducer begins by spreading onto the print table a thin layer of ceramic slurry containing a light-sensitive polymer. This layer is exposed to ultraviolet light through a mask that represents the required pattern. Wherever the light falls on the polymer it causes it to solidify, binding the particles in the slurry together. The print table is then lowered by a fraction of a millimetre and the process repeated, with a different mask if required. And so on. Once finished, the solidified shape is cleaned of residual slurry and heated in a furnace to sinter the ceramic particles together.

More work will be needed to turn the process into a production-ready system. But Prabhjot Singh, who leads the project, hopes that it will be possible to use it to make not just cheaper ultrasound probes, but also more sensitive ones that can show greater detail. Although researchers have had new transducer designs in mind for years, it has been impractical to construct them subtractively. Additive manufacturing could change that.

The new laboratory will look at other forms of additive manufacturing, too. Some 3D printers spread metal powders on the print table and sinter the pattern with lasers or electron beams, rather than using masks. Others deposit thin filaments of polymer in order to build structures up. GE is interested in how the technology could be used right across the firm's businesses, from aerospace to power generation and consumer products, according to Luana Iorio, head of manufacturing technologies at GE Global Research.

The gains include less waste and the ability to make bespoke parts more easily. But one of the most compelling advantages is freeing designers from the constraints of traditional production. Those constraints include having to design things not in their optimal shape but to be machined, often as a series of pieces. Additive manufacturing can combine parts into a single item, so less assembly is needed. That can also save weight-a particular advantage in aerospace. These new production opportunities mean manufacturers, big and small, are about to become a lot more inventive.

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Combating addiction

Can a vaccine stop drug abuse?

It may be possible to vaccinate people against addictive drugs

THE idea of vaccinating drug addicts against their affliction is an intriguing one. In principle, it should not be too hard. The immune system works, in part, by making antibodies that are specific to particular sorts of hostile molecule. Such antibodies recognise and attach themselves to these molecules, rendering them harmless. Vaccines work by presenting the immune system with novel targets, so that it can learn to react to them if it comes across them again.

The problem is that the molecules antibodies recognise and react to are the big ones, such as proteins, that are characteristic of bacteria, viruses and other infectious agents. Small molecules, such as drugs, go unnoticed. But not for much longer, if Kim Janda of the Scripps Research Institute in San Diego has his way. In a paper just published in the *Journal of the American Chemical Society*, Dr Janda and his colleagues suggest how a vaccine against methamphetamine, a popular street drug, might be made. If their method works, it would open the possibility of vaccinating people against other drugs, too.

The idea of a methamphetamine vaccine is not new. The problem is getting the immune system to pay attention to a molecule that is such a small target. The way that has been tried in the past is to build the vaccine from several components.

First, there is a large carrier protein that forms a platform for the target. Then there is the target itself, a set of smaller molecules called haptens that are attached to the carrier. These may either be the drug in question or some analogue of it that, for one reason or another, is reckoned to have a better chance of training the immune system. Finally, there is a chemical cocktail called an adjuvant that helps get the immune system to pay attention to the carrier protein and the haptens.

Dr Janda noticed that past experiments on methamphetamine vaccines had all revolved around tweaking either the carrier protein or the adjuvant, rather than tinkering with the haptens. He thought he might be able to change that, on the basis of work he had carried out previously, trying to design a vaccine against nicotine. In particular, nicotine is a highly flexible molecule. That makes it hard for the immune system to recognise. To overcome this, his team on the nicotine project had to work out how to fix their haptens to the carrier protein in a way that rendered them less capable of twisting and turning, and thus made them easier for the immune system to identify.

In the new study, Dr Janda and his colleagues report that they have performed a similar trick with methamphetamine haptens. They used computer models to visualise the haptens in three dimensions and thus work out how the molecules could be rearranged such that they could not spring, twist or turn when being examined by the immune system. In light of this information they designed six new methamphetamine-like haptens. Once built, they attached the new hapten molecules to carrier proteins, mixed them with adjuvant, injected the results into mice and waited. After several weeks they tested the mice to see if the animals' blood contained antibodies to methamphetamine.

Of the six new haptens, three successfully provoked the mice to make such antibodies. As a bonus, one of those three also stimulated the production of antibodies against another widely used drug, amphetamine. That is still a long way from providing a working vaccine, but it is an important step forward. And if human immune systems react in the same way to the new vaccines as murine ones do, the day when a drug addict might be offered vaccination rather than opprobrium will have come a little closer.

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Faster helicopters

Racing rotors

Chop, chop



MOST helicopters cannot fly faster than around 270kph (168mph). That is partly because of increasing vibration, but mainly because the spinning rotor blades provide both lift and propulsion. As the aircraft accelerates, the airspeed of a blade (and thus the amount of lift it provides) increases when that blade is moving forwards and decreases when it is moving backwards. Eventually, the imbalance becomes unsustainable. But faster helicopters would be useful, particularly for rescue missions and military operations, so engineers are constantly looking for ways to make them.

In a recent test flight in France the experimental Eurocopter x^3 (pronounced "x cubed" and pictured above) managed 430kph. The x^3 has a five-bladed main rotor and a pair of propellers on two short wings. This means it can hover like a helicopter, but when flying forwards can reduce the speed of the main rotor and let the wings provide part of the lift. Its propellers give the extra oomph. This puts it on the tail of Sikorsky's experimental X2, which has set an unofficial world record for a helicopter by flying at just over 460kph. The X2 uses a pusher propeller mounted at the rear and has a pair of contra-rotating main rotors, one positioned above the other. That arrangement produces an equal amount of lift on each side.

Sikorsky, an American company, believes the X2 is capable of flying at over 500kph and is building a version called the S-97 Raider to be tested by America's armed forces. A new transatlantic race, it seems, is on.

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America and China

No go

The Western politician who understands China best tries to explain it-but doesn't quite succeed



On China. By Henry Kissinger. *Penguin Press; 586 pages; $36. Allen Lane; pound30*. Buy from Amazon.com, Amazon.co.uk

CHINESE and American leaders have been sniping at each other in public again. This month Hillary Clinton, America's secretary of state, discussing political reform, told the *Atlantic* magazine that China's leaders were "trying to stop history, which is a fool's errand". This may have been what provoked Wang Qishan, a Chinese deputy prime minister, to tell a television interviewer that Americans were "simple" (perhaps "innocent" conveys the Chinese word better), and have trouble understanding China, "because it is an ancient civilisation, and we are of the Oriental culture."

Mr Wang will applaud Henry Kissinger's latest work, a distillation of more than 40 years of involvement with China and its leaders, and an unabashedly Orientalist affirmation of the otherness of the country. The most riveting chapters deal with Mr Kissinger's leading roles in the Nixon administration as it established links with Mao Zedong's China. The well-known story bears retelling by a central protagonist who made his first, secret trip in July 1971, pleading illness to take a few days out of his official schedule while on a visit to Pakistan. President Richard Nixon's own trip in 1972, which had been initiated by Mr Kissinger, was indeed a "week that changed the world", as China and America ganged up to deter Soviet expansionism.

Mr Kissinger's encounters with the urbane, conciliatory prime minister, Zhou Enlai, and the elliptical, moody Mao-and indeed with every senior Chinese leader since-make gripping reading. Some of Mao's allusively poetic dialogue, in particular, is beyond parody: "At the approach of the rain and the wind the swallows are busy." The panoramic authority with which the Chinese leaders (and their interlocutor) dissect the world is breathtaking.

But Mr Kissinger is not telling all. He recounts how, in the years beforehand, more than 100 exploratory meetings in Warsaw had made no progress because of Taiwan, which America still recognised as "the Republic of China". It is not clear when or why America abandoned its notion that China should commit itself to peaceful reunification as a precondition for a presidential visit. China has never renounced the threat of invasion.

Nor does Mr Kissinger explain the thinking behind the communique signed after Nixon's first visit, in which America acknowledged "that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China." Large numbers of people in Taiwan have never maintained any such thing. But for China's leaders, and, it seems Mr Kissinger himself, public opinion anywhere outside the United States is not really a factor when the geopolitical stakes are so high.

Before Mr Kissinger himself enters the narrative, the reader is offered 200 pages of history of modern China and its foreign relations. Most of this is uncontentious and well told. But it is marred by three related flaws. The first is Mr Kissinger's insight that Chinese strategists think like players of *wei qi* or Go, which means that, in the long term, they wish to avoid encirclement. Westerners are chess-players, tacticians aiming to get rid of their opponents' pieces "in a series of head-on clashes", he writes. "Chess produces single-mindedness; *wei qi* generates strategic flexibility."

This conceit has been used by other authors. It appears every few pages here like a nervous tic. Even before Mr Kissinger joins the game, the metaphor is pulled into service to analyse, among other things, Chinese policy in the Korean war, the Taiwan Strait crises of the 1950s (where, of course, "both sides were playing by *wei qi* rules"), the 1962 war with India ("*wei qi* in the Himalayas"). Later he describes events in Indochina as "a quadripartite game of *wei qi*", just at the time when genocide was under way in Cambodia.

Second, the picture of Chinese foreign policy, as formulated by cool, calculating, master strategists playing *wei qi*, makes it appear more coherent, consistent and effective than it has been. China's involvement in the Korean war, for example, led, in Mr Kissinger's phrase, to "two years of war and 20 years of isolation", hardly a goal for China-or a *wei qi* triumph.

Third, Mr Kissinger gives little weight to the fact that Mao, Zhou and the others were in fact communists. In power they soon replicated some of the forms of an imperial court, and China's history always mattered more to them than "Das Kapital". But one cannot ignore the influence of Mao's adaptation of Marxist ideology on his foreign policy, let alone the importance to domestic politics of the Leninist structures imposed on the Chinese Communist Party in the 1920s, which still wears well.

In a rare admission of a blunder, Mr Kissinger recounts the only time he saw Zhou lose his serenity-at a banquet in Beijing in November 1973 when Mr Kissinger said that China had remained "essentially Confucian in its belief in a single, universal, generally applicable truth". Communism, he suggested, had established Marxism as the content of that truth.

This was an extraordinary gaffe. Zhou was under indirect attack by Mao's cronies through a campaign criticising Confucius. But his reaction also illustrates the prickliness of Chinese leaders when foreigners presume to pronounce on the eternal verities of Chinese culture.

If even the venerable Mr Kissinger can be caught out, what hope for American statesmen far less familiar with China? The problems that have beset relations since he left the stage are not surprising. His book describes the important role he played as an intermediary in trying to resolve the worst crisis-after the Beijing massacre of 1989. Shortly afterwards, the collapse of the Soviet Union deprived the relationship of its "defining shared purpose".

Since then, America's relations with China have been marked by a startling increase in economic interdependence, but not by any onset of mutual trust. Mr Kissinger notes that in the post-1989 era, China's foreign-policy posture has been "closer to Bismarck's than Mao's". It has, you could say, taken up chess.

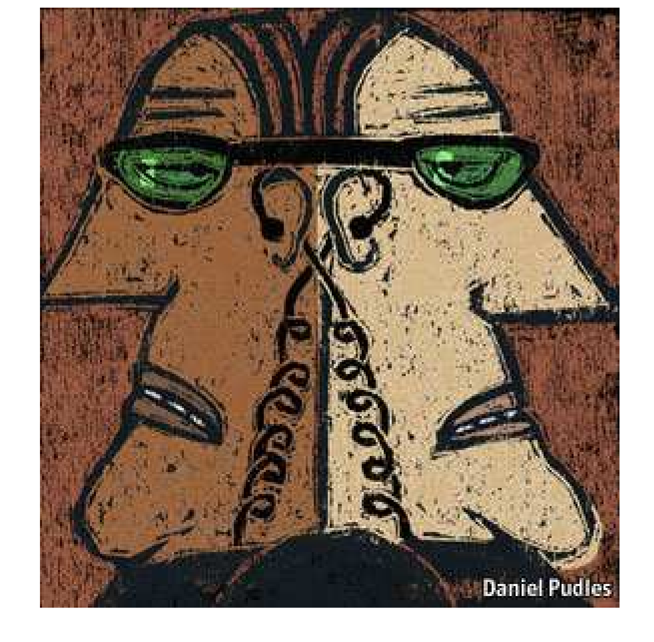
In his closing chapter Mr Kissinger finally turns to the big question: does China's astonishingly rapid rise condemn it to inevitable conflict with America? He notes the similarities with the rise of Germany a century ago and the inevitable threat it posed to the British empire. America and China, too, could easily fall into a cycle of escalating tension that would be hard to break. Optimistically, Mr Kissinger insists that "were history confined to the mechanical repetition of the past, no transformation would ever have occurred." But on how to avoid such repetition, he is disappointingly vague.

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New thriller

The Pak pack

How David Ignatius runs with the news



Bloodmoney: A Novel of Espionage. By David Ignatius. *Quercus; 372 pages; pound18.99. To be published in America next month by Norton; $25.95*. Buy from Amazon.com, Amazon.co.uk

DAVID IGNATIUS is one of the luckiest journalists in the business. He has been writing about the Middle East, Pakistan and Afghanistan for more than three decades, immersing himself in the shadow worlds of the CIA and its allies and enemies. And he has turned his expertise into two rivers of gold: a regular column in the *Washington Post*, which is carefully read in Langley, and a succession of bestselling novels, one of which, "Body of Lies", was turned into a film by Ridley Scott, starring Leonardo DiCaprio and Russell Crowe.

Mr Ignatius's luck has held out with his impeccably timed new novel. "Bloodmoney" is, among other stories, a study of Pakistan and its secret service, the ISI. The service is built on a mountain of lies. ("His lies could be tucked into the bags under his eyes, or hidden in the fold of flesh below his chin," he writes of its boss.) But it is also the backbone of Pakistan-one of the few things, along with the army and hatred of America, that keeps the fractious country together. This book has such a contemporary ring that you expect to come upon a description of Osama bin Laden living in a safe-house in Abbottabad.

Mr Ignatius is a master of the small details that give spy-novels a ring of truth (his description of the corner of London where *The Economist* has its office is certainly accurate). The CIA is as much a petty bureaucracy as a killing machine. The ISI is still enthralled by the rituals of the British Raj. But Mr Ignatius is more of a John le Carre than a Tom Clancy. Far from offering a tub-thumping celebration of America's "war on terror"-or a tut-tutting condemnation of Pakistan's duplicity-he serves up a supper of nuance and self-doubt.

Mr Ignatius's CIA is even more duplicitous than the ISI. Much of the action takes place in a hidden world within the hidden world: an arm of the agency established to escape from the oversight of Congress and the blind conservatism of Langley, which cannot grasp that BlackBerries and the internet cloud have made embassy code rooms irrelevant. But the gentlemen in Langley are just as duplicitous as the young hotshots and better at playing politics.

The CIA's biggest failure, though, is not so much its willingness to double- cross but its naivety. The CIA is determined to "fix" Pakistan by dint of two simple techniques: buying off warlords with piles of cash and incinerating terrorists with drones. But the quest for cash ends up adding corruption to the CIA's original sin of duplicity and the incineration sets off a cycle of revenge that consumes everyone it touches-or, as John Milton put it in a couplet that forms the epigram to this gripping novel, "revenge, at first thought sweet/Bitter ere long back on itself recoils".

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Bernie Madoff

Lord of the lies

The largest Ponzi scheme in history, and its wake of destruction



The cat in the hat

The Wizard of Lies: Bernie Madoff and the Death of Trust. By Diana Henriques. *Times Books; 419 pages; $30 and pound17.99*. Buy from Amazon.com, Amazon.co.uk

INMATE number 61727054, known to the world as Bernie Madoff, is serving a 150-year sentence in a prison in North Carolina, and is one of the world's most reviled men. For many, he embodies the greed, roguishness and deceit that caused the financial system to implode in 2008. He confessed in December of that year to operating a $50 billion Ponzi scheme, the largest in history, but few really understand why he did it or when it began.

In "The Wizard of Lies", Diana Henriques, who covered the Madoff scandal for the *New York Times*, offers a riveting history of Mr Madoff's shady dealings and the shattering consequences of his theft. Mr Madoff grew up in Queens. His father's small business ventures repeatedly failed. Determined to be a success himself, and too proud or afraid to disappoint others (a fatal flaw, it would turn out), his first fraud dates back to 1962, when he was managing money for about 20 clients. Mr Madoff invested their money in risky stocks that went belly up. Instead of owning up, he borrowed $30,000 to buy back their shares, erasing the losses and allowing him to keep up the impression he was a brilliant money-manager. It set a pattern. Mr Madoff's Ponzi scheme probably began after the 1987 stockmarket crash, which prompted investors to withdraw billions from his fund. He used his new investors' money to pay out the old.

The fraud was especially jarring because Mr Madoff was the consummate Wall Street insider, writes Ms Henriques. He served as chairman of NASDAQ and was on the board of governors for the National Association of Securities Dealers. He saw the opportunity to speed up trading early on, and pushed for automated stock quotes. When the Financial Industry Regulatory Authority (FINRA) had to abandon its downtown offices after the September 11th 2001 attacks, FINRA's legal team worked out of Mr Madoff's offices.

His illegal activities were nearly uncovered many times. After numerous tips the Securities and Exchange Commission (SEC) investigated him. But, despite hours spent poring through his fabricated trading records, they found nothing. Fraud at another hedge fund, Bayou Group, exposed in 2005, prompted investors to withdraw cash from Mr Madoff and left him $92m short. He had only three days to sign up more investors or his fraud would have been detected. He got the money. Unable to find enough cash to meet all the redemptions in the crash of 2008, he finally confessed to his family about what he had done, and his sons turned him in.

Mr Madoff claimed he pulled off this massive fraud alone, but this seems unlikely. Who else knew? Several of Mr Madoff's employees falsified records of non-existent trading activity and will probably spend their lives in jail. Jeffry Picower, one of his longtime investors, may have also suspected it. He had been the victim of a Ponzi scheme before but, before he died, he made sure he was one of Mr Madoff's largest beneficiaries. Last December his widow reached a $7.2 billion settlement with the victims. Her husband, she insisted, knew nothing about the fraud.

Ms Henriques forcefully argues that Mr Madoff's wife, Ruth, and sons, Andrew and Mark, were ignorant about the scheme, despite public speculation to the contrary. She offers a raw and surprisingly moving portrait about the toll that Mr Madoff's deceit took on his family. Last December, unable to cope with the ignominy of being a Madoff, Mark committed suicide. Ruth, shunned by everyone she knew, including her sons, suffered too. A memoir published by one of Mr Madoff's investors after he went to prison revealed he had an affair while he was married. Ms Henriques offers this as proof that Mr Madoff hid a great deal from Ruth.

The big question that the book fails to answer is why Mr Madoff became a villain at all. He is no sociopath, Ms Henriques writes. So why ruin so many lives? Mr Madoff seemed unable to say no and risk disappointing those around him, which apparently sparked the fraud in the first place. In an interview from jail, he tells Ms Henriques that he felt burned by investors who withdrew their money after the 1987 crash. They "changed the deal on me," he said. "I was hung out to dry." That Mr Madoff feels resentment towards his investors is among the many ironies the book points out, and is one of its strangest legacies.

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The healing power of horses

A calming influence

A story of riding and redemption

Long Shot: My Bipolar Life and the Horses Who Saved Me. By Sylvia Harris. *Ecco; 206 pages; $25.99*. Buy from Amazon.com

HORSES have long been used to help people with physical and mental health problems. Riding for the Disabled Association, a British charity, was established in 1965, its American equivalent in 1969. Equine therapy is routinely used to help rehabilitate prisoners, assist wounded servicemen to readjust to civilian life and develop social and motor skills in children with autism.

Horses saved Sylvia Harris from her crippling bipolar disorder and enabled her, at 40, to become a jockey and the first African-American woman to win a thoroughbred race. "Long Shot", her first book, is an edgy, unapologetic account of this achievement and of her own race to outrun the illness that consumed her. It is also a tribute to the power of the horse to calm, contain and inspire.

Raised in a rackety household with a sick mother and alcoholic father, the young Ms Harris sought comfort in animals; snakes, bugs, stray dogs, cats. But it was horses that dazzled her. Her father bought her one when she was 12, but sold it without warning a few months later. Her parents fought violently through her teens. Her fiance dumped her and, the day after attending her high school graduation, her father walked out.

A year later Ms Harris has her first manic attack, not sleeping for days, hallucinating, on relentless overdrive. The episode is the start of a chaotic 20 years of mania interspersed with debilitating depression, ostracism, poor decision-making, hospitalisation, joblessness, homelessness and, cruellest of all, having her three children taken into care.

Salvation comes in Marion County, the heart of Florida's thoroughbred racing industry. Before long Ms Harris winds up on the racetracks of Chicago, the best in the country. After coming third in her first race on the arthritic Wildwood Pegasus she goes on to ride him to victory in her second. The significance of her achievement is summed up in the words she whispers to her mount after the race. "You saved my life tonight," she tells him with tears in her eyes.

The Getty Museum and its antiquities

Collateral damage

The hypocrisies of the antiquities world

Chasing Aphrodite: The Hunt for Looted Antiquities at the World's Richest Museum. By Jason Felch and Ralph Frammolino. *Houghton Mifflin Harcourt; 384 pages; $28 and pound16.95*. Buy from Amazon.com, Amazon.co.uk

THE admirable display of Greek and Roman antiquities at the Getty Villa in Malibu was a hit when the museum reopened in 2006 after a $275m refurbishment. The curator of the show, Marion True, was not present, however, having been forcibly retired by the Getty trustees. Ms True was facing trial in Rome on charges of acquiring for the Getty classical items illegally looted from Italian graves. She is both the villain and the victim in this slickly written and well researched detective story by two journalists associated with the *Los Angeles Times*.

When Ms True began working at the Getty in the mid-1980s demand for classical antiquities greatly exceeded supply. It was being met principally by a few piratical European dealers running a supply chain that started in archaeological sites in Italy and Greece, where looting was endemic, and ended in the great American museums. Ms True's finest moment was the purchase, for $18m, of a huge limestone and marble statue of Aphrodite dating from the fifth century BC. The purchase went ahead from a London dealer named Robin Symes, even though the provenance was laughable. Gossip in the trade suggested that Aphrodite had in fact been found not long before in Sicily. It seemed that Ms True had succumbed to curatorial avarice.

By coincidence, the purchase was completed on the same day that Italian bureaucrats decided it was time to stop the exodus and initiated an international investigation into the illegal traffic, to be conducted by an unforgiving prosecutor named Paolo Ferri. Mr Ferri saw a photograph of Aphrodite, and decided that it belonged back in Italy. He targeted Ms True.

She was an unlikely villain, since she was at the time making a stir in American museum circles by demanding a significant change to acquisition policies. It should be illegal, she declared, for museums to purchase classical statuary whose provenance was unclear. Furthermore, if looted work was identified in American museums it should be returned. She returned to Italy four significant pieces bought by the Getty. Senior policemen and bureaucrats in Rome were impressed, but not Mr Ferri. He decided that Ms True had a double nature-"not Dr Jekyll and Mr Hyde, but very similar". He put her on trial.

Ms True pleaded not guilty, but her case suffered badly from self-inflicted wounds. She coveted a house in Greece and borrowed money to buy it from an important New York collector, who had just given and sold much of his collection to the Getty. Moreover, that collection contained a number of pieces that circumstantial evidence identified as suspect. The Getty's trustees decided the house loan was a conflict of interest and forced out Ms True while she was on trial for transactions they had known about and approved. Her former colleagues at the Getty have nothing to learn from Pontius Pilate when it comes to washing their hands.

Ms True battled on in Rome, refusing to admit any guilt. Her case was finally dropped last November, after this book was completed. The authors, if not the court, clearly consider Ms True guilty as charged. But by then Mr Ferri's investigation had achieved its aim: Aphrodite was back in Italy, along with dozens of other looted antiquities from American museums. Mr Ferri finally confessed that Ms True had been only a means to an end. Ms True, jobless, with her reputation destroyed, now cultivates her Greek garden. She was, Mr Ferri says, "collateral damage". The story is well told, though perhaps sadder than the authors intended.

Brothers in arms

The long perspectives of Gustave and Martial Caillebotte



Brushing up on water

GUSTAVE CAILLEBOTTE first picked up a paintbrush in earnest at the age of 27, when he and his brothers inherited their father's fortune in 1874. Over the next 15 years or so he turned out a series of paintings many of which stretch the eye along exhilarating perspectives: views from a balcony of Baron Haussmann's broad boulevards in Paris, pedestrians on the sweep of the Pont de l'Europe with its giant iron girders, straw-hatted house painters inspecting their handiwork on a street that shoots off into the distance, an oarsman in shirtsleeves and a top hat plying a stretch of the Seine at Petit Gennevilliers.

Fifty Caillebotte paintings, many of them from private collections and rarely seen in public, have been captivating visitors at a new show in Paris. Photographs by Caillebotte's brother, Martial, who shared his elder sibling's fascination with Paris's urban transformation, as well as sailing boats and life on the river, echo the paintings while also offering detailed depictions of family life among the prosperous French of the Belle Epoque.

Caillebotte had an academic training, but quickly fell under the Impressionists' spell, blending their use of broken brushwork and reflected light with a more realist style. An early painting from 1876 shows the Caillebotte family at lunch. The carefully observed reflections from glass decanters, silver settings and the polished table provide splashes of light in the dining room's dark opulence. "A painting clear like glass, bourgeois in its exactitude," wrote Emile Zola of Caillebotte's best known picture, "Les Raboteurs" ("The Floor Planers"), in which three naked- torsoed workmen are shown on their knees preparing a parquet floor as the light pours in through a floor-length window.

An 1883 profile portrait of Henri Cordier, an eminent Sinologist, writing in his study surrounded by books and papers reveals a touch of Edgar Degas. The vigour and immediacy of "Oarsman in a Top Hat", viewed by an invisible passenger, is conveyed by deft Renoir-like strokes as a boat skims through the pale green surface of the rippling water.

Wealthy enough not to have to worry about selling his work, Caillebotte championed the Impressionist cause. He funded exhibitions (his own work appeared in a couple), bought his friends' paintings at generous prices and paid Claude Monet's rent. In return, Monet, together with Auguste Renoir, took Caillebotte-already an excellent oarsman-out sailing.

By the late-1880s, Caillebotte's output had dwindled as he refocused his energies on his extensive gardens at Petit Gennevilliers, on the edge of the Seine near Argenteuil, as well as yacht racing. He set up his own shipyard and designed prize-winning boats, Martial faithfully photographing in his footsteps. Late paintings in the show feature regattas in the stiff breeze, tranquil river scenes or winding, flower-lined paths and kitchen gardens.

In 1894 Caillebotte died, aged only 45. In his will he left 67 Impressionist paintings to the French state, which mulled over the bequest for two years before accepting just 38, now the core of Musee d'Orsay's Impressionist collection. The rest were later sold to Albert Barnes of Philadelphia.

Caillebotte left hundreds of his own canvasses to his family. They rarely come up for auction. "Man on a Balcony" sold for $14.3m in 2000; today it would fetch twice that figure. Long hidden from view, Caillebotte's paintings have, in recent years, begun to be put on public display, both in Paris and elsewhere. Visitors leave this particular show thirsting for more.

"Peintre et Photographe" ("Painter and Photographer") is at the Musee Jacquemart-Andre until July 11th, and at the Musee National des Beaux-Arts du Quebec, Canada, from October 6th until January 8th 2012

Seve Ballesteros

Severiano Ballesteros, Europe's greatest golfer, died on May 7th, aged 54



AS HE struck the ball, Seve Ballesteros feared he had overdone it. After a good 3-wood tee shot and a decent sand-wedge to the 18th green at St Andrews in 1984, the ball was only 15 feet below the hole. Now, in his sheer eagerness to win, he had hit it too hard. But no. The ball rolled sweetly towards the hole, improbably curving round, hovered on the edge of the cup, then tumbled in. It seemed to go in slow motion as he willed it and willed it forward. And with that he had won the Open.

His joy then, as he punched the air, raised his arms to the crowd, laughed and almost danced, was perhaps the most ecstatic moment ever seen in golf. Later he made that image his logo. Bags, shirts, caps and putter-covers proclaimed him to be the best. And for more than a decade, from 1979 to 1991, he was. He won three British Open championships and two Masters, and over his whole career bore off 87 titles. He was in the European Ryder Cup team that in 1985 overturned 28 years of American domination, and later led a team to Ryder victory himself.

It was also beautifully done, inspiring a whole generation of European golfers. He had strength for the long game, finesse and subtlety for the short game, but also a daring that bordered on recklessness. Pure passion made him drive his tee shots into car parks, gorse and bunkers, but this was a man who could pitch a ball over an eight-foot wall, or hook a 5-iron shot round a tree, or chip-and-run through a tiny gap between two yawning bunkers, and sink the putt for an improbable birdie. He was always in trouble, yet he never was.

Luck, said some. Miraculous, said others, as they sighed at his soft blasts out of bunkers on to the green, or the fluid grace of his swing. Commentators talked of natural genius, as though he was still a seven-year-old whacking a pebble with a home-made club on a beach in Cantabria. His impoverished family put it down to *destino*. Such talk annoyed him. It was all hard graft and iron discipline: hitting a ball, alone, for hours. It started in boyhood, putting into tomato cans on a bumpy two-hole piece of field on his parents' farm, or driving into a fishing net hung in the barn. He reckoned he had hit 1,000 balls a day. Because he had only one club, a 3-iron, he learned how to do everything with it: low, powerful shots, high, soft-landing shots and impossible recovery shots out of long, tangled grass. He could improvise his way out of anything.

Admirers asked where the passion came from. He found it hard to explain. The joy of impact, finding the sweet spot on the club-face and feeling the ball obey, visualising the perfect shot and sensing that he could achieve it, was a large part of it. But pride fired him more. Man and boy, he was consumed by the need to prove himself. First against his three brothers, who also became professional golfers; against the old guard at the Royal Golf Club at PedreÃ±a, who treated him like dirt when he caddied there; against the Americans, whose players, he assumed, had been formally instructed on world-class courses, and who thought the Masters and the Ryder Cup belonged to them; against anyone who thought he was inferior, or tried to control him with senseless regulations. Though the European Tour owed so much to him, he fell out badly with its officials in the 1980s-even being left out of the 1981 Ryder Cup team, when he was ranked number one in both Europe and the world.

Rising, falling

He started every game to win it, and sometimes wept when he failed. About three weeks before each big tournament he would enter a bubble of concentration that muffled even the crowd's applause. He was aware only of his body, the club, the ball, and the winning interaction between them. Hence the expression, serious even to mournful, that shadowed his film-star-handsome face on the course. But he was not above a little psychological warfare-the odd cough, the innocent remark-to put his rivals off their stroke. And as he politely shook their hands, he would be thinking: "I am going to bury you."

He had made his name on the professional golfing scene at 19, still a gawky lad continually hitching up his trousers, throwing away a lead with sublime impatience at Royal Birkdale in 1976. He left the scene early, too. At Augusta in 1986, when he lost the Masters with a clumsy 4-iron shot into water at the 15th, he felt his touch was fading. Increasingly through the 1990s he missed the cut for tournaments and slid down the rankings of players. Back pain crippled him. His marriage broke up, leaving him alone in the huge new house he had built at PedreÃ±a with display cases full of silver cups and an 18-hole course in the garden, and in 2008 he was diagnosed with the brain cancer that killed him.

Golf, he often said, was a mysterious thing. Despite all his practice, some days he played well and others badly. A good swing would come, then disappear. On that fantastic day at St Andrews in 1984 he had "dressed for the kill" at the 15th, pulling on his dark-blue Slazenger sweater in which he had won at Lytham five years earlier as if it was a matador's suit of lights. On other occasions he watched ruefully as the shot, like the bull, avoided the target. The ball rose, travelled and fell; you were born, you did your best, you died. The arc of golf was perhaps no more biddable than the sad trajectory of his life.
